

Austin Energy Utility Oversight Committee Meeting Transcript – 2/25/2016

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[9:16:05 AM]

>> February 25, 2016, and we now have a quorum. I will call the Austin energy utility oversight committee to order. The first -- we have councilmember pool, Zimmerman, Renteria, Gallo, tovo, and Houston present. So we will begin our meeting, and the first item of business is agenda item 1, approval of minutes. Do I have a motion? So made by councilmember pool. A second? Councilmember Zimmerman made the second to approve the minutes. All in favor? Any opposed? Passes unanimously. We have citizens communication, and we have one, two, three, four, five speakers. The first speaker is Jane dobsovit, and I'm sorry if I did not say your name correctly.

>> [Off mic]

>> Gallo: Each of the speakers will have two minutes to speak. Ms. Dunkerly will be second, Todd, Katie.

>> Thank you for having me. Good morning, councilmembers. I'm here to request reinstatement back onto the Austin energy discount program. As of the first quarter of 2012 I was entered on to the discount program cap and I came -- they took me off as of September 2014. I'm on ssdi and with three recent capital metro bus accidents severely -- with medical disabilities incurred in that and previous disability with my legs, I've been on ssdi since 2002. So my --

>> Houston: Get close toter mic, please.

[9:18:05 AM]

>> You're welcome. Thank you. So my request is to be reinstated back onto the Austin energy discount program of which I had been on since the first quarter of 2012. And I was taken off September of 2014. And I hadn't known why. I had for five months received blank applications in the mail. Every time I mailed my application backfilled out and I had faxed three faxes from my apartment complex's office, management's office. And I never got a reply or a reason, and each time I got a blank application for five months, I resubmitted it. I approached Kathie's office back in november/december of that year. You may remember. And considerable research had been done by the director of Austin energy's cap program, and Kathi tovo's office, councilmember then. And because I'm studying law here in Texas, I'm a student, research is part of our backbone. So when --

[buzzer sounding] When the director had mentioned that I have to approach city hall to change their policy, here I am in this endeavor since 2014. Thank you. Is that my time limit?

>> Gallo: Thank you. It is. Thank you. Council, any questions? Okay.

>> Tovo: I'll ask one of my staff members to talk with you, and we'll see what the next -- if there's information we can help you get or put you in touch with the right staff member.

>> Thank you.

>> Tovo: Can I ask you --

>> Yes.

>> Tovo: That's fine, we'll do that. If you're in a particular district, we'll get in touch with that office as well.

>> Thank you very much.

>> Gallo: Actually, my policy aid aide is going to meet with you in the back and see if there's something she can help you with.

[9:20:12 AM]

>> Thank you.

>> Kitchen: You're welcome. Next speaker, Ms. Dunkerly.

>> Thank you very much. I believe this may be the first time I've ever signed up to speak before you, so I'm a little frightened on this side of the dais.

[Laughter] My name is Betty dunkerly, and I represent the Seton family of hospitals and we're participating right now in the Austin energy rate review process. We have no problems with the process. Your staff has been outstanding, been outstanding to work with and been very helpful in all ways. However, the time frame that they've proposed is a really tight time frame. And it has the -- our final arguments come again on April 22 and then the council decision on June 23. The hearings officer proposed an alternate schedule that would give us about four weeks more in the process, still having it come to you by July 28. Austin energy declined to accept that proposal because they felt like the council had given them a strict date of June 23. So my request is for you to review the alternate schedule and provide either the four weeks that the hearings officer had recommended, examiner, I keep calling him an officer -- or even more time. Some of the more experienced people on the stakeholders' group think even the four weeks may not be enough. I can give you an example of when they first did the rate proposal, we requested a mock bill from the utility, and they couldn't do it because it hadn't been programmed yet. But the representative was very nice. He sat down and did some manual calculations and tried to help us estimate what that bill might be. So then we requested some -- just some basic data on our usage so we can manipulate it ourselves and see what some calculations might be.

[9:22:15 AM]

And they haven't gotten us that data yet so it will be a while before we can do that. So really what I'm requesting --

[buzzer sounding]

-- Is that you give us some additional time either by adopting the hearings examiner's exile or an alternate schedule that would give us more time. It would help not only the stakeholders but I think it would help the staff so that we can have better time for responses and for review. Thank you.

>> Gallo: Thank you. Are there any oxygens councilmember Zimmerman.

>> Zimmerman: Thank you, Ms. Dunkerly for coming. Is that -- do we know, councilmember Gallo, the schedule that she mentioned, the alternative that goes out into July, is that in our backup material right now or what can you tell me about that?

>> Gallo: It is not. We are going to have a presentation and a briefing and that would be a really appropriate question to ask during that briefing.

>> Zimmerman: That sounds good. The second question -- yeah, go ahead.

>> Councilmember, I think their concern was the budget process. And one of the issues is -- you can -- what I would -- what might be a possibility would be, since there's going to be evidently a rate decrease,

I think it's very probable that you could just put in the current budget as a placeholder and then as the case is resolved, either before September or after September, do those budget amendments.

>> Zimmerman: Okay. One more quick question while you're here. Can you -- maybe you don't know the answer but I know you know a lot of things. What is the difference between, say, your situation here in Austin with the city monopoly versus other hospital systems that operate in Houston or Dallas where they have some market choices and there's not one municipal utility company? Because some of the other cities, right, you don't have one choice for power? You can negotiate maybe with other companies?

>> That's true, you could. But, you know, there's a beauty in public power, in that the governing body can make a decision to give discounts to companies or to entities that provide additional benefits to their community.

[9:24:25 AM]

You don't find this in other cities where they have the -- the private companies, put it that way. But there -- but you also -- in many -- many of those do have the ability to select your power supply person and as long as they're lower then, I guess, that's an advantage.

>> Zimmerman: Because you've been on this side of the dais, and what happens when you do these special deals and you grant a discount to this sector or to this group, the rest of the groups come in and say, hey, you're shifting the cost, you're giving the hospitals a better rate but now that cost has shifted to someone else. That's the point I'm making.

>> It's probably a zero base game so you do have to be aware. Now, I think one of the things you could do is require that people that are getting discounts use those discounts to continue to provide benefits that you're giving them to, and certainly they do that with the school district who are underfunded anyway. You know your state just has not only a big employer but they've got a big stick so there are reasons -- and I don't have any problem with those discounts because I think in most cases the community is getting significant benefit from them thank you.

>> Gallo: Mayor pro tem tovo.

>> Tovo: Councilmember bunkerly.

>> Betty.

>> Oh, sorry. Remember, I don't have any hearing. Councilmember?

>> Tovo: So can you -- with regard to the alternative schedule, can you tell me exactly which one that is and where we would find it?

>> Well, Austin energy could provide that to you because the hearings examiner presented an alternate schedule and I do have a copy of it in my notes if you want me to hand it to you. But like I say, some of our stakeholders think we need even more time, but I think at a minimum you should consider that.

[9:26:33 AM]

>> Tovo: That would be good.

>> Let me get that and hand it to you.

>> Tovo: That would be great. I realized long, long ago our positions were in exactly reverse so thanks so much for being here today.

>> I don't have it with me.

>> Gallo: All right. Thank you. Anyone else? Okay. Next speaker, Todd Davy, please. Following Todd will be Chris Hughes.

>> Good morning. We call upon your leadership today in addressing one of the largest challenges facing Austin. That's affordability. And utility bills is one of the items driving affordability. The current cost --

the current Austin energy rate case provides the opportunity to address this issue for residents and businesses. Austin energy's rates remain some of the highest in the state of Texas, which also means that the city is in violation of the city council's affordability goal of keeping rates in the lower 50% of benchmark cities. We applaud mayor pro tem Kathi Tovo's item earlier this month calling for a series of work sessions to better prepare the council to make an informed decision going through this process. However, we think you can and should do more. NXP and Samsung are requesting that the council and city manager's office do the following. Number 1, scrutinize Austin energy's revenue requirement. The most effective action the council can take is to reduce the revenue requirement. The lower the revenue requirement, the lower the rates. Our challenge to the council is to reduce the revenue requirement by approximately \$200 million a year. Our initial analysis from the data we've received states that that would put Austin energy's rates to the Texas benchmark cities for all customers. The other request is we ask that you add a standing item to the council agenda. This is a large process. You're investing a lot of time and resources on this so we request that you add discussion and possible action regarding issues related to Austin energy's tariff, cost of service and study to change basic rates as a standard item to your meetings to discuss the issues related to.

[9:28:47 AM]

As an operator of a municipality you have the privilege of operating a monopoly and we believe you have the responsibility to operate it efficiently. We need your leadership now as the city council, as the board-austin energy should use this to align our rates with the rest of the utilities in Texas.

[Buzzer sounding]

>> Gallo: All right. Thank you. Any questions? Councilmember Zimmerman.

>> Zimmerman: Thanks. Insofar as it's worth, I'm not opposing what you're asking for.

>> Okay.

>> Zimmerman: For what it's worth.

>> Thank you.

>> Gallo: Any other questions. I might mention has there councilmembers Troxclair, Kitchen, Garza are with us now. Next speaker, Chris Hughes.

>> Hello, council. My name is Chris Hughes and I represent NXP and Samsung. I'll speak a little to the process. NXP and Samsung wrote laid out in detail the significant concerns we had with the rate review process including the procedural rules in development at the time. On January 20 we wrote to the council, city attorney and again to the IHE reiterating the concerns in detail and significantly the concerns of the schedule as it compares to the same proceedings at the state office of administrative hearings. These concerns are now being realized. Specifically, we raised concerns that Austin energy was unilaterally determining what issues were and were not in the scope of the proceeding by dictating those issues to the IHE. A full transparent review of rates requires a review of all the information relevant to the cost of service model, revenue requirement, revenue distribution and their rate design. Austin energy wants to exclude information by either setting it outside the scope of the proceeding or by kicking it to the attorney general's office as confidential and highly sensitive, requiring a 45-day window -- requiring of filing of a freedom of information act that takes 45 days for the AG to respond to.

[9:30:51 AM]

This would make the information unavailable to parties in this proceeding. This is precisely the type of information routinely available to parties in rate cases at the PUC through the use of protective orders. We have another detailed letter that will be distributed to the office that lays out a series of examples how the process lacks structure, genuine authority for the presiding officer and/or transparency for

ratepayers. We also agree that by placing the rate review on the city council agenda as a standing item until the case is complete will provide both you and the parties in the case the opportunity to -- opportunity to stay informed and react quickly as needed when the facts and transparency require.

[Buzzer sounding] So that's all I got.

>> Gallo: Thank you. Any questions, councilmember? Okay. Thank you.

>> Thanks.

>> Gallo: Last speaker, Ms. White.

>> Good morning, councilmembers. My name is kayeba white, here on behalf of public citizens. I'm here to speak on the same issue you've heard from several speakers so far. It is rare that public citizen and some of these entities are aligned in our request but we are in this case. The schedule that has not only been proposed but that is moving forward with the Austin energy rate case is really just not a realistic exile. It is very rushed and at this point you're now poised to hire a consumer advocate that is to represent residential and small commercial customers that approval hopefully will be today, but we have already passed the deadline to raise new issues in the Austin energy rate case. So at the very minimum that deadline needs to be opened back up. I would argue there's no reason not to just open it up for all parties but at the very minimum for the consumer advocate. But as you've heard from several other speakers, the schedule in general is just very compressed and frankly we don't see the need for that, given that there was not any sort of emergency budget situation with Austin energy.

[9:32:54 AM]

They have sufficient revenues coming in. This council can budget according to last year's needs and we can, you know, address the -- any possible issues that result from the rate case after the budget is completed. That is -- I don't think a legitimate reason to rush this case. And I just want to touch on another topic, which is that this is an opportunity to be taking small steps to update Austin energy's business model. Every time we address rates and programs at Austin energy, I certainly am thinking in that frame and I hope that you all are too because our utility as it exists today is not going to be able to be the same in a decade. It's going to have to change, and this is an opportunity to make those small changes to evaluate what's working and what's not. So I would just urge you to -- given that Austin energy doesn't seem to have voluntarily taken these issues into consideration and adjusted the schedule.

[Buzzer sounding]

-- I urge you to take action. Thank you.

>> Gallo: Thank you, Ms. White. Any questions? Mayor pro tem tovo.

>> Tovo: Just a comment that I agree that -- with the issues that you've raised about the timing of the consumer advocate and the ability for that position to really effectively cyst those who need it and so -- assist those who need it so with regard to our exile I hope we have an opportunity to talk about that here today and I look forward to hearing from our staff whether they plan on making accommodations to the schedule based on the stakeholders' concerns that we've heard.

>> Gallo: Okay. Any other oxygens all right. Thank you.

>> Thank you.

>> Gallo: That ends the citizens' communications. I would lining to take this opportunity to mention that our March meeting, which is normally exiled on the fourth Thursday of March, looks like there will be a council meeting, a potential council meeting scheduled for that day. We will not have council meetings the prior two Thursdays because of spring break. So we are moving Austin energy to the following Monday, which would be Monday, March 28, and it would begin at 9:00. So just -- it will be posted on the schedule but just to make sure that also the public is aware of that.

[9:34:59 AM]

We have a tendency -- Austin energy was supposed to be a stand alone Thursday and we keep moving in the direction that we have council meetings exiled for the same day so we're going to move that to the following Monday, just so everyone can put that on their schedule, Monday, March 28, at 9:00. All right. We will move into agenda item number 3, which is a briefing. It will be the overview of public power market in Texas and elements of the revenue requirements. It's my understanding I believe that we have three speakers. We are also going to take agenda item number 5 after this because one of the speakers on 3 will also be talking about 5 and we will move agenda item number 4 to the last, behind 5.

>> Good morning, chairperson, councilmembers, interim general manager of Austin energy. This morning we have the first of three briefings that requested by council on February four. We were given general broad topics to discuss and so we'll -- we're going to be addressing those this morning, specifically public power, enrolling the city's financial picture and revenue requirement piece. As stated we have three speakers. First will be mark Zion, recent retired director of Texas public power association, 20 years representing public power and ERCOT and public utility commission and legislature. Former Austin energy staff member, worked on utility issues for many years and he's particularly noted for his refurbishment of our moonlight towers at their 100th anniversary. We have Thompson [indiscernible] who is a partner with the law firm. He's very experienced in representing utilities before the public utilities commission the state office of public utility council. He is -- he is working on behalf of AE as did he in 2013 in our rate case here, and today he's going to be limiting his presentation to the revenue requirements, without specifics to Austin energy's revenue requirement in this rate will have.

[9:37:09 AM]

And, finally, we have Missy Lane Hart, the CFO of our city, talking about the role of the general fund. And as chairperson Gallo commented she's also going to be bridging on to the topic of item number 5 that you have on your agenda tonight, and then we'll put item number 4 -- we're requesting 30 minutes of the meeting for item number 4, which is a customer assistance program. So with that we're going to have Mr. Zion present on the public power piece.

>> Good morning. As he said, my name is Mark Zion, and pleased to be here. Chair Gallo, councilmembers. I was asked to come down and visit with y'all about the electric utility industry and public power and doing that on a voluntary basis this morning, as Mark noted I was executive director of the Texas public power association for 20 years and have longevity equals expertise maybe I can shed a little light on some of the issues that y'all are dealing with. I have a set of slides that I'd like to visit with you about this morning, and this presentation is in response to the mayor pro tem's resolution, as I understand it, to bring overview information to the council in advance of your rate -- deliberations that are upcoming. And session one included the topics overview, public and private power, and the ERCOT market and those are the things I'm going to talk about a little bit today and to go over with y'all some very basic information.

[9:39:13 AM]

And this may be -- if I'm repeating things you've heard before, let me know. If you have questions, let me know, want to talk about the major sectors in the electric industry, about public power specifically, municipally owned electric utilities, their key characteristics, that value proposition, do a little bit of comparison between the public sector and the private sector and then talk a little bit about ERCOT markets at the wholesale level and the retail level. A lot of stuff for 15 minutes, but we're going to blast right through this. The first slide contains three maps that kind of show you the footprint of the three

major sectors in this industry. About 70% of the electric industry, about 70% of the customers, 70% of the load, however you want to slice it is in the top right-hand slide served by private utilities or investor-owned utilities, ious, our industry is laden with acronyms and I tried to put information in that defines those acronyms but investor-owned utilities is an umbrella term for the private sector, top right slide, serving 70% of the market, major metropolitan areas, Houston, Dallas, corpus, other parts of the state. Bottom right-hand side is electric cooperatives. These entities are private, not for profit, cooperatives, they have evolved primarily in the rural areas of Texas. About 15% 1-5% of the market, as are municipally owned electric utilities like Austin energy, about 15% of the electric market in Texas. There are a lot of subparticipants in each of these categories but these are the major sectors that we find in the Texas electric industry today. Want to drill down a little bit about public power. That one sector, 15% of the electric industry, 72 municipally owned utilities in Texas own and operate their own local electric systems. They're big, small, urban, rural, they range in size from cps energy in San Antonio to the city of molten Texas with 653 meters.

[9:41:23 AM]

I wanted to make sure that the council understood that you are not alone. Councilmembers, citizen boards in 72 communities across Texas, over 2,000 communities across the United States deal with these issues. They struggle with these issues every day. They work very hard to make sure that the provision of electricity in their communities is a value-added kind of proposition and they've been doing this for a long time. Local authorities such as yourselves in these municipal utilities set rates and policies, as you do, which are responsive to the priorities in those communities. In Texas, our municipally owned utilities participate in the electric reliability council of Texas, in ERCOT, and ERCOT runs two tiers of electric markets, one at the wholesale level, which you and the other municipal utilities and electric cooperatives are required to participate in, where power is sold in bulk between market participants. The other market they run is the retail market. That's a deregulated market where individual businesses and homes and institutions and industry can buy their power from different retailers. You are not required to participate in that. You have a local option, just like municipally owned utilities around the state. And to date, none of those municipal utilities have taken that option and participated in those deregulated retail markets. Listing key characteristics, this slide is text heavy for a reason so that you can come back and refer to it. Notations that are in red are things we're going to drill down on here in a second on a comparative kind of basis. These are things you already know. Municipal ownership for public power systems, very simple mission. Not too simple to implement it. Reasonable rates and community value. Tying those things together. At the regulatory level, you are the regularities here for the municipally owned utility. The public utility commission, which is the state regularity, does not get involved in your business very much.

[9:43:27 AM]

You make the rates. You put in place a utility that has a service quality level like the other municipal utilities, which is high, reliable, local. You're funded by utility revenues and some of those utility revenues, as you'll hear later, accrue back to the city as a benefit to the citizens of the city, to help fund, police and parks, fire and libraries and those kind of things. You've been leaders on renewable energy fronted as well. I want to talk about statewide municipal utility performance, customer satisfaction. We see a lot of -- we see the JD Power rankings, a lot of customer rankings, customer service and customer satisfaction is high for municipal utilities for a fundamental reason. The customers essentially own the system so these are local activities where a customer is being served by local staff, not calling a remote call center when they've got a reliability problem or billing problem, those kind of things. Let me talk a

little bit about this middle bullet, jobs and economic development. A very key part of the value proposition of your municipal utility is the local employment and the local contracting that comes with owning your own electric utility system and the ability, as do have municipal utilities around the state, to support economic development activities, to put in place infrastructure policies, to have a consolidated approach, where you can retain and attract businesses that are positive to your community and positive with respect to employment. One other brag on this sheet is creditworthiness. Municipally owned utilities are the most creditworthy entities in the business and you can see a lit of recent bond ratings here at the bottom of this slide. This is a very busy slide but this is basically responsive to your recent council resolution to compare the public and private providers of electricity in this state.

[9:45:30 AM]

They are complimentary but different in many ways. On the top line, you can see with respect to regulation, we talked about the local regulation of municipally owned utilities. For private investor-owned utilities, there's really not one entity. Each private utility that used to be vertically integrated, file service like Austin energy is today, has now been broken down into a company that provides wire service, basically the transportation function, a company that provides the power, they own the power plants and generate the electricity, and a separate set of companies that perform the retail function. They go out and sell electricity to homes and businesses and industry. And there are more acronyms there for them, which I used in this slide to try to condense this on to one page, but for the private side, the wires rates are set by the state regulators, the public utility commission. Simple reason, everybody uses those wires for transportation. It's kind of a common carrier function, kind of like the highway system. With respect to the power plants, the power-generating companies and the retailers, their prices, not rates, their prices are based on the market, what will the market bear. It is a competitive market for them at the retail level. Private investor-owned utilities have a difference with respect to finances, the second line here on the slide the owners are shareholders, oftentimes remote shareholders in other states and potentially other countries and unlike municipal utilities, where the city is the owner, the citizens have essentially an ownership stake as well. With respect to finances and you'll hear from your chief financial officer a lot more utility, but the mou and the city, their finances are linked as are their bond ratings. For a private sector provider, that linkage is really between stock prices and the value or the -- of the private sector utility.

[9:47:38 AM]

Different financial goals, credit worthiness, community value on the public side, shareholder value and he can equity on the -- equity on the private side. I talk a little about rate making which is what y'all are embarking on a lengthy process to make rates for Austin energy if for municipally owned utilities, there are public processes in all of these 72 cities around Texas. They are diverse in the length and the complexity of those processes, which are appropriate to the different communities and the different situations. You might have a small rate increase nurse a large rate increase, small city versus a large city, city had a has power plants and generation, city that doesn't. There's diversity there. At the bottom line all municipal utilities have a public process. They are all setting rates bons costs, that are allocated to each customer class, residential, commercial, industrial. They look at the pie, the costs for the municipal utility, employees, infrastructure, the return to the city, figure out how big that is and then they divide that pie between the different classes of customers in their city. For municipal utilities, the PUC doesn't get involved except for outside city ratepayers and almost all municipal utilities have at least a few. They can appeal a decision of the local governing body over there to the you PUC. Very different on the private side. Like I said rates are set at the public utility commission for the retailers and the power-

generation companies. We have a market base set of rates. What are the objectives for rates and how do those differ? Public power systems set rates to achieve long-term objectives and to respond to community priorities, whether that's affordability, whether that's environmental sensitivity, whether that's reliability, as all those things get rolled together.

[9:49:48 AM]

On the private side rates are set based on more short-term prices. I'm saying rates, actually they are prices, wholesale market prices. For municipally owned utilities, we see rates that are more stable over time because of the diverse fuel MIX of municipal electric systems. I'll talk about that with a graph here in a second, but on the competitive retail side in the private sector, rates follow the price of natural gas very closely. And right now we're seeing low rates in the deregulated competitive retail market because we have historically low natural gas prices as we're seeing low oil prices as well. Last comparison on renewables and your staff can give you stats. I can give you statewide statistics, but mous, including Austin have been leaders, based on community priorities, on a long-term look, trying to diversify your fuel MIX and also on your creditworthyness, you can cause these kind of facilities to get built oftentimes by the private sector providers who contract with you to provide that renewable power. This graph is a historic graph over time and kind of shows electric rates in a very, very aggregated way. Rates at the blue line is the average of the private sector, the regulated average. This is about a ten-year look. The red line is the municipally owned utility average and then the green line that's in there is the price of natural gas. You can see that the blue line and the green line, very, very similar. Volatility with respect to gas price volatility is reflected in Houston and Dallas and corpus, in those retail rates, in that deregulated environment. Municipally owned utilities, that's the line that's a lot flatter. That's the red line. It reflects the fact that your prices and rates and your peers in the public power sector have a more diverse fuel MIX.

[9:51:56 AM]

It's a imitation. It's a MIX of your natural gas resources, your renewable energy resources, your coal fired power plants or nuke clear fired power plants. This is what we see on an ongoing basis. Today, near parity in general and these are residential rate comparisons, not commercial or industrial. But municipally owned utilities, with that more stable, predictable, diverse background set of rates, are at about the same level in general as the deregulated areas for residential customers. Which are reflecting today's low natural gas prices. Second item I've got to ask -- I got asked to talk about is the ERCOT market. ERCOT is a wholesale market as you know. All electric entities including -- about 70,000-megawatt peak load in August. Austin energy is about 4% of that, about 4% on a load ratio share. And this market, as I said is fully competitive at the wholesale level. And what ERCOT does in that wholesale market is to try to take those market forces and also meet a couple of criteria. Let's have costs as low as we can at wholesale and let's have a reliable system. We can't rely only on the lowest cost resources and still be reliable. ERCOT has to balance customer demand with convention. They bring power plants online based on economics and reliability purposes. I know you've heard a lot about the nodal market. It is locational. You have a power plant in the west zone. You have a power plant in the north zone. Prices in those Zones are determined as generators submit offers for downtown. ERCOT strikes the market every five minutes using low bids to pay generation, so the costs can be kept down on a statewide basis and then they dispatch other power plants, if there's a need for reliability you have a lot of low cost in one area but the pipe isn't big enough to get it to the metropolitan areas.

[9:54:07 AM]

There are -- ERCOT can say we're going to start a power plant that may be more expensive in different parts of the state so they can keep the system balance and keep it reliable. But at the wholesale level, their goal is lowest -- approximate the lowest cost while maintaining reliability. And Austin Energy has a professional staff that bids your generation resources into the market and y'all are very full participants in that regard -- full participants in that regard. So in summary, wanted to leave y'all with a couple of things. You're in charge. So are councils and boards and 72 other cities in Texas and local costs-based rates are set in all of those communities, allocated by customer costs, classes in a diverse public process. The private sector, asked to make those comparisons, these are complimentary parts of the electric market in the industry. Private sector and public sector. But things are different with respect to the way they set rates, their financial base and the other categories we talked about earlier. ERCOT markets, you are required by statute, by ERCOT protocols, PUC regulations to participate in the wholesale market in ERCOT but you have an option to participate at the retail level. So I hope that this general background has been helpful and would be pleased to answer any questions you might have.

>> Gallo: Councilmember Zimmerman.

>> Zimmerman: Thank you. Appreciate the presentation. I thought you did a pretty decent job of explaining the benefits of the monopoly-owned utility, but are we going to have another presentation that kind of shows the disadvantages of the municipal monopoly energy power? Because there are some big advantages to the market and I didn't really see that emphasized in your presentation.

>> Councilmember, I was asked to come and visit with y'all about the differences between the public sector and the private sector and clearly both models have their strengths and both models hit a pothole every once in a while.

[9:56:17 AM]

The -- and so I was not asked to come and talk about the disadvantages of public power. If there's specific disadvantages that you see I'd be happy to address them.

>> Zimmerman: I would. The huge disadvantage is the word "Community" is thrown around a lot and what we see, municipally owned utility necessarily becomes political. So the community is comprised of different factions, residential, consumers, small business, large business, hospitals. And you just heard some testimony here that these groups seem to be competing in the political arena for who is going to get the best preferential treatment on the rates. Obviously, the industrial users, semiconductors, they have a powerful place in the community. They want advantageous rates. The consumers say we're the majority of the voters. We want advantageous rates. The hospitals come in and say we provide a public service of health care, we want advantageous rates so it throws this whole thing into kind of arrive political battle up here on the dais of who is deserving the best rates. But that becomes a contest of cost shifting because one group pays more, one group pays less. It's the politicizing of the energy market. So me that's the big disadvantage.

>> Gallo: Councilmember Zimmerman.

>> Zimmerman: How would you answer that.

>> Gallo: Councilmember Zimmerman, thank you for your comments. He was invited as a speaker. This is one of the workshops that Mayor Pro Tem Tovo had suggested of the three that we do, and so I want to try to keep us focused on that. If that is a topic of -- that you would like to bring up for another meeting, that would be fine but we're going to continue on with the format and the topics that are part of this presentation.

>> Zimmerman: It's fair, but I don't have the votes to bring in the alternative point of view and that's why I'm required to ask these questions.

>> Gallo: Okay, yes. Councilmember Kitchen.

>> Kitchen: Go ahead if you want -- thank you. I appreciate your point of view, councilmember Zimmerman, but I thought that our speaker gave a very balanced presentation. If you'll look at the comparison page, you can decide for yourself which of these are advantages or disadvantages, but this is a factual presentation, and I really appreciate it.

[9:58:23 AM]

Thank you.

>> Gallo: So thank you --

>> Kitchen: What you're raising is a policy question that we need to discuss as councilmembers.

>> Gallo: Mayor pro tem tovo.

>> Tovo: I just wanted to thank our speaker. I think that was a real clear summary and overview of this topic, which is exactly what I had hoped we'd have. And I'll just point out that the system we're operating within is that it is a municipally owned utility, and we're trying to focus on the rate case within it, and so I think talking about municipally owned utilities is both relevant and what we need to be doing right now. So thanks again. I really appreciate it. And I appreciate the comparison.

>> You're most welcome.

>> Tovo: I thought it was extremely interesting in particular to talk about the rate stability of municipally owned utilities and as you pointed out that comes in part from the diversity of the different resources. So thanks again.

>> Gallo: And I think we have a couple of questions on your presentation. Garza.

>> Troxclair: On slide 7 where you were comparing the different rates of mou's and private sector, does that chart include -- that's just rates. It's not necessarily total bill. It doesn't include other fees that mob's might charge and public sector might charge as well?

>> Yes, ma'am. First off if you ask know do a rate comparison I can give you whatever answer you want in a lot of ways. These are very much apples and Oranges comparison. This is made as an historic comparison over time to show some trends as opposed to the exact level. The underlying data seeks to include all the fees and all the related components of residential electric bills. This is 1,000-kilowatt hour customer for that period and the components for all the different providers.

>> Troxclair: And can you explain the option to join the deregulated retail market?

[10:00:27 AM]

I understand that no mous that taken that option, but what would that mean, what would that look like if somebody did decide to join that?

>> Municipality owned utilities and electric cooperatives as well have an option to participate in the deregulated retail market. It's an irrevocable option. You're either in or out. It's an option that can be taken by an action of the governing body of that public power system or electric cooperative. If a municipality owned utility -- we have one electric cooperative that is participating in the deregulated market, one out of 85 and zero out of 72 municipally owned electric utilities.

>> Troxclair: What is the co-op?

>> It's nukes electric cooperative down near corpus Christi. And a little bit different situation. The primary motivation for that cooperative participating was to have their service territory, which was shared with a private sector provider, having that overlap kind of divided. So that occurred. And that electric cooperative is now serving in its service territory. They're selling electricity at retail on the open market. If a municipal utility's governing body was to opt in to retail competition and participate, you asked the question of what would happen. Many things would happen. The municipality owned utility effectively would see itself either structurally or functionally divided as we saw with the private sector

entities into a wires company, you would be setting a wires rate, which would allow your poles and wires to be used by all kinds of different retailers to get power to customers in your area. You would also be setting a retail rate by which you would sell power to folks in town, potentially to others outside of town if you made that choice.

[10:02:27 AM]

You would have to interface with the ERCOT administered retail market system. A very expensive proposition with respect to putting the systems, the commuter systems, et cetera, in place. You would also need to have your generation costs assessed, make sure that the investments you made on behalf of the citizens of Austin in the past stayed with those citizens just like the investments in Houston and Dallas and Corpus Christi that were made before these areas were deregulated stayed with those citizens animal care services deregulation occurred. Costly process. Probably a multi-year process for the private sector entities in the early part of the 2000s. It took three years plus for them to be able to make that transition.

>> Troxclair: But the -- a customer who now doesn't have a choice but to use Austin energy would have a choice of their electric provider.

>> Yes, ma'am.

>> Troxclair: Is that the end result? Okay. I just wanted to understand that. And how -- can you explain the fuel -- I appreciate the comparison of the fuel mixes and why -- how that effects -- how that affects rates. How are -- are the -- is the dependence on natural gas for privately owned companies -- why do they -- I mean, they have the choice to diversify their portfolios as they see fit. What is the underlying reason that there is a difference in the fuel mixes between mous and privately owned?

>> It's really a market functionality. The private sector generation fleet has diversity. There are private sector natural gas plants, coal plants, nuclear plants, some renewables as well.

[10:04:33 AM]

As that commode is making its way to a business or residence that price gets set again in a market and natural gas is a market leader and folks price to natural gas. So you see that linkage between retail prices in Houston and Dallas and corpus and the deregulated private market and natural gas. It hasn't been more than about seven years ago that natural gas prices were about five times what they are today. And retail electric prices in the deregulated areas were very expensive at that time. In a municipal situation you own those generation assets and their mixture -- your eggs are kind of not all in one basket. You have a mixture of cost, certain low cost resources, certain resources that are a little bit more expensive, power plants. As you MIX those together you're more immunized from one of that -- one component of that MIX moving up or down.

>> So if natural gas -- natural gas prices rise, can an iou make the decision to decrease their dependence on natural gas?

>> Really it's a market structure that causes that dependency to occur. Private sector entity as different fuel prices move in different directions and power plant developers can make different decisions I want to build a natural gas plant. I think in the future a coal plant might be better. I think in the the future an investment in renewables might be better.

>> Troxclair: So they have the ability to diversify their portfolio as they see fit. They happen to be heavily tied to natural gas right now, which is working out in their favor because natural gas prices -- their predictions are right. If they made a decision to invest in natural gas and natural gas prices have remained low for several years, and if they see that that is going to change in the future can they decrease making -- decide to -- if they're projecting that natural gas prices are going to rise and another

fuel source is going to be less expensive they can make the decision to invest in -- I know it's an expensive -- it doesn't happen overnight and it's a lot of money and it's a big decision when you're investing in these kind of energies, but they can make the decision to invest in a different kind of energy or fuel MIX in order to further diversify their portfolio and provide them further stability if they wanted to.

[10:07:07 AM]

>> Essentially yes. Although really the linkage to the price of gas is more of a private price. If you're in this market you will be selling at prices that are determined in a market as generators bid their output and those prices are very much linked to natural gas, even if you're running a coal plant or you're running a wind farm. Because someone else is selling energy that's based on natural gas, which is cheaper than coal right now, right?

>> And natural gas is the predominant fuel in Texas.

>> Troxclair: And I think in regards to Mr. Zimmerman's question, do you's have the same distinctions in their rates based on who their customer is. Do they set for hospitals or larger users or is that really something that is unique to an area?

>> The short answer is yes. Customer class differences are reflected in the private sector side as well. And in the deregulated private sector side that's reflected in the prices that are offered by retail electric providers. Whether you're in Dallas, Houston, one of the deregulated areas, they bring you prices because of your size, characteristics that are much, much lower than the prices they would give to you or me at our house, at our residence. So you see market kind of play out those customer groups with different prices in the deregulated areas.

[10:09:22 AM]

It's not deregulated so their rates are set by the PUC. If you go down to the public utility commission during an XL rate case you will see large customers, small customers, medium size customers in there essentially competing with each other to see if they can get the lowest rates.

>> Garza: I had a question about slide 7 and the historical prices. She asked if that was just rates and I thought you said it was all fees. Is that right?

>> On the municipal utilities side this is based on a survey and which municipal utilities were asked to provide they're all-in rate for residential customer of average usage. So although self-reported, the assumption is that they reported rates and fees and what's on the customer's bill. For electricity. Some municipal utilities like Austin energy have a consolidated bill where you get a bill for electricity and water and street sweeping and pothole filling and that kind of stuff. But this was just about electricity. So it's our understanding that these -- the data underlying this is all in costs.

>> Garza: So could you then speak to the general population and customers would pay less if they didn't have to purchase from Austin energy, but this chart seems to say that that's not in fact true. This chart seems to say historically municipal prices are more stable and lower than the deregulated. Is that right?

>> Councilmember, on an historic basis municipal utility prices have been stable and slightly lower than deregulated prices.

[10:11:30 AM]

We talked about with councilmember troxclair, with natural gas prices so low the deregulated gas prices are low as well. In the last year we've received municipal utility prices, this is not Austin energy, this is an aggregate of municipal utilities around the state, be near parity with what's going on in the deregulated

market. These are residential Numbers. These are not commercial or industrial Numbers. And what we've also tried to do is to look at mainstream retail offers in the deregulated areas. The chairman of the public utility commission, donna Nelson, was in the Dallas news a couple of days ago and at her most recent PUC meeting asked the commission staff to take a look at some of the teaser rates that are out there in the deregulated market in Houston and Dallas, and there seems to be, as chairman Nelson noted, a preponderance of offers out there that are very, very low. One cent power. And in fact, underlying those are different terms and conditions, minimum usage requirements, the ability of the provider to change that price at a future date after a period of time, that kind of thing. But mainstream offers in a deregulated market, least in a residential secretary E seem to be near parity. And over time they've been up and they've been down. While municipal utilities have been kind of the tortoise in the race, kind of steady, moving along with relative predictable prices because of their fuel diversity there. In the future we'll see what happens. If I had a crystal ball and knew what natural gas prices would be doing in five years I probably wouldn't be standing here talking to y'all this morning, but at the end of the day that process of being able to have predictable rates, have a diverse set of power plants can provide value that's above and beyond whether your rate today is a little bit cheaper or a little bit more expensive.

[10:13:42 AM]

And it's true with respect to businesses as well. We've talked to large customers around the state and have heard from them that as long as my rates are in a reasonable range I can't afford to pay a lot, but price predictability means a lot to me as well as an industry. So these are all balancing factors that your committee and this council will need to take into consideration.

>> Garza: Yeah, I've seen some of those really low bills in deregulated markets so I was trying to reconcile that. But you're saying that those could be outliers. When we hear these stories of really, really low electric bills in the deregulated --

>> I don't want to leave you with the impression that they're all outliers and folks in Houston and Dallas and the deregulated markets can't get a cheaper price for electricity today, maybe not tomorrow, maybe not yesterday, but today, than they can in Austin, Texas. That is clearly not the case. Depending on the size of the customer, how willing they are to shop, their class, they may be able to get a better, less expensive rate in a deregulated market today. Customers just like this council need to take into account more considerations than just price. Am I buying from a company that's local? Am I buying from a company that sends its profits back. Or does it help to keep my taxes and fees low and help support municipal services like police, parks and libraries? Am I buying from a provider whose price is going to change on me going forward? But yeah, there are lower prices in the deregulated market. In some cases, and some some cases some municipal public power market has lower prices.

[10:15:44 AM]

>> Garza: Thank you.

>> Gallo: Any other questions, councilmembers? Thank you very much. Appreciate it. And just watching kind of our time schedule here, I just wanted to make the council aware that there are two more speakers under this agenda item. We then have two more agenda items, so my guess would be that we will definitely be going past 12:00 if you want to plan accordingly, but it's looking like this is good presentation, good questions. I appreciate the mayor pro tem tovo in moving forward to us these three workshops. This is the first presentation of one of the workshops. Then we have two others that will both be held in March. One with our council committee meeting and then another one that will be scheduled independently.

>> Tovo: Chair? So I think that you've just clarified this, but I still see a lot of people here who are probably here for the council meeting. So our full council meeting I think was posted for 10:00, but my assumption then is that we likely won't start that full council meeting until noon? Is that your expectation?

>> Gallo: Well, if we are going to go through all three agenda items that have been put on this agenda, my guess would be given that it's an hour into our meeting and we still have two speakers left on this agenda item, we have another agenda item that will probably be about an hour, 30 minute presentation with questions would probably be an hour, and an agenda item number 4, which is probably going to be a 30 to 45 minute agenda item that we will go past 12 before we are finished.

>> Tovo: Okay, thanks. I wanted to make sure that people who are here for the council meeting understood they could leave and come back and not miss anything. So is that kind of our agreement as a council that we will not start our council meeting before noon?

>> Gallo: Yes, it may be after noon.

>> Garza: I have a question. I'm assuming we have citizen communication at noon so I was giving them more room to not be back exactly at noon if they want to go back to their office and come back at lunch.

[10:17:50 AM]

That's a consideration too.

>> Gallo: This is really an important subject and we need to feel comfortable asking questions. Once again, I'm going to go back on the soapbox about the scheduling of council meetings at the same time as Austin energy. I think this is important. We have people that have taken their time to come to present really good information. I want the committee members to feel comfortable and my looking at the agenda and hearing the questions and I think it will be past 12 or maybe 1:00 or 2:00 when we're finished. If you would like to start, thank you.

>> Hello. I serves as outside council for the city of Austin since may of 2010. Today I will not present to you as an advisor, but more as an educator on electric utility regulation. So you can consider this as basically an overview, a very high level overview of how rates are set in a regulatory forum. I wanted to start today with the basic question of why we regulate? Utilities are often referred to as natural monopolies and they're referred to as monopolies because certain unique aspects. There are aspects to entrance into the marketplace.

[10:19:54 AM]

Obviously in order to be an electric utility you have large investment in capital, building power plants, transformers, substations and the like. And as a result it's very difficult for new entrants to enter into that marketplace. More over there's some practical concerns. There's the obvious safety and geographical limitations with respect to the placement or poles and wires in our cities. It just simply doesn't make sense to have more than one set of wires going through our communities. As a result, electric utilities are considered monopolies and regulation provides a substitution for competition because of that market failure. Now, let's just talk briefly about the goals of regulation. Regulation is intended, as I mentioned, to be a substitution for competition. It's intended to balance the interests of the utility, making sure that it has the dollars that they need to provide service to their customers while also balancing the interest of ratepayers. It provides a forum for interested stakeholders to review a utility's revenue requirement and make proposals to the regulator that can be considered along with the recommendations of the utility in setting the appropriate rates not only for the the utility, but for individual customer classes. Just briefly I want to also talk about sort of the regulatory framework. As you all were talking about a moment ago, prior to deregulation in 2002, utilities all across Texas were

what's referred to as bundled or vertically integrated. An electric utility would own the power plants, the transmission and distribution system as well as the retail function. And those were all regulated by the state, the public utility commission or by municipally owned utilities at the city level.

[10:21:57 AM]

Now, prior to deregulation, degreenation as I said was done primarily by the cities and the courts. I'm now referring to areas outside of municipally owned utilities. A city such as the city of Dallas would set a rate and if the utility agreed by that they may appeal that to a district court. Quite honestly it was a cumbersome and unwieldy system and as a result of that states all across the United States began to create state agencies who were tasked with the responsibility of setting electric utility rates. Interestingly enough, Texas was the last state to create a public utility commission and I've got a quote here that kind of suggests the reason behind that is because of their belief in local self-control, self-regulation, Texas is the last state to create a public utility commission and that was done when the legislature adopted the Pura act in 1975. In the early days of what I referred to here as sort of the golden age of regulation you had very large rate cases before the PUC. That was a time when nuclear power plants were being included. Their costs were being included in rates. There were a number of highly publicized telephone cases that were going on at the same time because during this time period the commission also had jurisdiction over telephone rates. But then there was a movement to deregulate a part of the marketplace and that happened in 2002 with respect to ERCOT. Although there are some obvious notable exceptions. In the areas of Texas outside of ERCOT, and we're talking now El Paso, northeast corner of the state where SWEPSCO serves, the Beaumont Port Arthur region and the panhandle, those are still vertically regulated and by the public utility commission. There are other exceptions as well.

[10:23:57 AM]

The co-ops that serve throughout our state. Those rates are set by the co-op boards and then the 72 municipality owned utilities. Since 1991 there's only been one case appealed to the public utility commission and I think we all know what case that was. Now I want to turn and spend the rest of my discussion talking about how rates are set. And I want to begin by talking about the revenue requirement. Setting the revenue requirement, also known as determining what the cost of services for a utility is, is one of three main components of a rate case. When the utility comes in to change their rates, first you have to determine what is their revenue requirement? What is their overall annual cost to provide service to all of their customers? And you can think of this as a pie. Here I have a picture of a pizza. How big is the pie going to be? And there's generally attention between ratepayers who want that pie smaller and the utility who wants it larger, although that's not always the case. The second main element of a rate case, and we'll talk about this in a moment, is cost allocation. Once you decide how big that pie is, then you have to allocate that revenue requirement to the various customer classes. You can think of that, as I'll show you in a moment, as a determination of how big each customer class' slice of that pizza is going to be. And lastly, the third component of a rate case is rate design. Designing the rates in a manner such that they recover the utility's revenue requirement. So with that I'd like to start by talking about the revenue requirement. Typically rates are set -- before I get into that, I also want to make one additional comment. Well, two actually. First, there's a long history of cost of service rate-making. Will you're not alone in this regard. It's been going on for nearly 100 years all across our country. The second point that I want to make is that this is not a science.

[10:26:03 AM]

It's more of an art. And by that I mean under regulation you don't have a true up or reconciliation of a utility's revenue requirement. There is not a dollar for dollar collection of their cost. Many times a utility may make an expenditure and that amount never goes into rates. We'll talk about some of the reasons for that in just a moment. So I think it's important for us as a regulator to always be thinking in those terms that this is not intended to be a dollar for dollar recovery, at least with respect to base rates. Fuel or power supply costs and some additional costs are reconciled and they're referred to as a dollar for dollar recovery. And we'll talk about that in a moment. But the majority of a utility's costs are recovered through their base rates and that is not a dollar for dollar recovery. Now, how do we go about determining a utility's revenue requirement? Typically we start with a test year. A test year is a one-year period of time in the recent past that we use as a starting point for determining what the rates will be in the future. I like to analogize this to a person's personal situation. Think of it as you're using your revenues and expenses for the year 2014 as a basis for deciding how much money you need in 2016. Before you do that, however, you need to make some adjustments to that test year. Again, bringing it to a personal level. Let's say that in 2014 you had to purchase an automobile, but you would not be purchasing that automobile in 2015 or 2016. You might not be purchasing another automobile for five or six more years. It would not be appropriate then to include the full cost of that automobile, assuming you pay for it all in 2014, in your 2016 budget. Similarly you may have had other expenses that were *Ano, ma'amlous*. So what you do for a utility is you make adjustments to that test year to make it more reflective of what we think rates will be or costs and expenses will be in the rate year, the first year that rates will go into effect.

[10:28:15 AM]

So you make adjustments for things that are non-recurring, for example, like the one-time expense that you might incur. The automobile purchase being an example. For a utility that might be the purchase of some one time non-recurring expense they incurred during that test year they would not be likely to incur once the rates went into effect. That can cut both ways. There can be positive adjustments and negative adjustments. So one of the adjustments that you normally would make to the test year is if things are non-recurring. In addition, as I mentioned, there's a lag or a gap between the end of the test year and when you were in -- when rates are actually set and go into effect. So something else that's important is for the utility to be able to make adjustments for things that have happened since the end of the test year. To use an example of a moment ago, let's say there were some additional expenses that came up in 2015. Since the end of the test year, but before you've actually set rates going forward. Those would be referred to as either post-test year adjustments and I have that as *pty* as we have over at PUC, or known as measurable must gents. And those adjustments can be either on the expense side or the investment side and they can go both up or down. So you'll notice when a utility comes in they'll say here's our test year. We've made certain adjustments to it. And then we've updated it with certain known and measurable changes. And when you look at these altogether we've come up with a revenue requirement that is again the total amount of dollars we need in a year to provide service to all of our customers. And that's what the utility would be requesting that the regulator approve as their total amount to be collected from customers. Under the law expenses must be found just and reasonable.

[10:30:15 AM]

And while that's somewhat of an objective standard we obviously have lots of precedent over at the PUC having been around since the 19 70's on what expenses are considered just and reasonable and which ones are not. Now, having said that those reasonable minds often differ and that's why we have

consultants from various parties that often disagree and present evidence on whether an expense is just or reasonable. Now, with respect to invested capital -- here I'm referring to tangible items that the utility has to purchase. Poles and wires, meters, transformers, substation, things of this nature. But that's referred to as invested capital. And the standard for inclusion of invested capital and what is referred to as rate base, is a prudent standard. What would a reasonable utility manager with information available to them at the time they made that decision have done? Was that reasonable from that perspective? And that's referred to as a prudent standard and that's the standard that a utility must meet before their invested capital can be included in what is an investor on a utility anyhow for rate based. Municipality owned utility such as Austin energy have rate base and you can think of that as just a component of base rates. And I know it's very confusing, base rates, that's the rates that you charge to customers versus rate base. That's an amount of invested capital that the utility has. While a Austin energy and other municipally owned utilities have rate base, they don't earn a return on that amount as an investor owned utility would. So it has sort of different meaning in the context of a municipally owned utility rate-making process.

>> Zimmerman: Chair Gallo, I have a quick question before we go on. Help me understand in the context of what you just said, where did the general fund transfers come in?

[10:32:17 AM]

Because obviously that's a revenue requirement, but is that -- maybe you're thinking about the total bill and not the rates, per Se. The rates are connected to how much power we use and what industry, but there's also a bill with the fees, whether it's transfer, community benefit, et cetera. How does that play into what you just said, the idea of the utility rate transfers?

>> Sure. All 22 Munis in Texas play a utility fund transfer and that is considered a component of the utility requirement and that is subject to adjustment by council. What does council determine is a reasonable gft. That can be a little or a lot or somewhere in between. So that is simply a component of the revenue requirement. It is authorized by state law so you're wondering where it's -- the legal basis for it. It's in the law. It's akin to an investment owned utility. People have often likened it to a return component, which again for an investor owned utility they would establish a rate base, all their invested capital that's useful for the provision of electric service and the commission would set a reasonable return on top of that. Similarly you're setting a gft in that same manner and it's concluded as a component of base rates and customers in the manner that you allocate it.

>> Zimmerman: Does the PUC get involved in judging whether that's fair or not?

>> The return?

>> Zimmerman: Yeah, the return.

>> The return component is generally the most contentious element of a rate case, so yes. Because quite honestly, reasonable minds can differ as to what a reasonable return is for an electric utility. I mean, return is basically a determination of risk. And all things being equal, more risk, a higher return, lower risk you have a lower return. So typically in a rate case you have consultants who are -- and lawyers arguing over what that appropriate return is.

[10:34:18 AM]

Moving on, once a revenue requirement is determined, then you move on to the next steps of the case. And before I get into it, to rate design, I do want to make a brief comment about how you collect the revenue requirement. And we've talked about sort of base rates and base rate component. And sort of other rates. Typically on a utility customer's bill, at least historically, there were two Numbers. There was the base rate and there was fuel. So you can think of fuel, the cost of providing the actual power to

the customer, the cost of the fuel that had to be purchased, and everything else. Over time the legislature as well as the city council has broken out the overall revenue requirement into additional costs that show up on the bill. For example, here in Austin we'll show a slide in a moment that kind of sets them out. There's a power supply adjustment, there's a community benefit charge, there's a regulatory charge. Those have been done for a number of reasons. Some have been established by the legislature. Some have been established by councils for municipally owned utilities. One difference is remember at the outset I said that a utility's revenue requirement is not trued up or reconciled. That's generally not the case with some of those other charges and that's one of the main reasons why those charges have been broken out. Generally because historically fuel as a commodity there was a dollar for dollar recovery by the utility. And so that's one of the main differences between base rates and some of these other charges. And similarly you will hear them referred to at times as tariffs or riders or surcharges or rates or fees. These are all different terms that are all considered different rates. And I think of these as, at least for riders and surcharges, as being separate from base rates, although sometimes those terms are used interchangeably and are often confused.

[10:36:29 AM]

All right, we've talked about revenue requirement. Now let's talk about the second step? The rate case and that's cost allocation. As I mentioned you can think about that as how big each class' slice of that revenue requirement is going to be. Often times in a rate case once you get to cost allocation, that becomes often times a dispute between not the utility and their customers, but between each of the customer classes. And before I move forward, let me say, customer classes are generally described as general groups of customers that have general groups of customers. So that's why you have utilities such as the residential class or small commercial or industrial or other types of classes. These classes have been grouped because of their similar assumption patterns and other similarities that I have. There's a different cost to the utility to serve these different customers as a group and therefore they pay different rates. Now, that's generally where the discussion stops. We don't get down to the very granular level of determining each individual's cost to serve. For example, if I lived right next door to a substation, the cost to serve me from a purely economic sense is less than my neighbor three doors down because you've got to build another pole or two and a little bit more wire. But we don't get down into that level of gran' layerly when we set rates. We generally stop it at the class level. So once you have a revenue requirement you take all those costs, all that revenue requirement and you divide it into or you functionalize it into the major cost categories. And there's different methods by which you can do this. And I should also state that reasonable minds can differ as to an appropriate allocation methodology.

[10:38:34 AM]

I feel pretty confident that over the next few months you're going to hear quite a bit about different allocation methodologies. And I think one thing that that any expert would agree to is that there are numerous allocation methodologies and that reasonable minds can differ. Now, they can argue why their proposed allocation methodology is appropriate given the specific fact circumstances, but I will tell you as I mentioned at the outset this is more of an art than a science. I think that's particularly true with respect to cost allocation. Then you again too allocate it to the various classes. You use different allocators to assign those costs to those customer classes. And I made the note here of at cost of service. Generally speaking, if you have -- if you've done this all properly, each class will pay exactly their share of the cost to serve that class. There's referred to as being at cost of service or it's often referred to as being at unity. So if it costs Austin energy \$300 million to serve all of their revenue -- their residential

customers in a year and \$300 million is allocated to that class, then that class is considered at cost or at unity. As I've mentioned, cost allocation is one of the more heated contestants parts generally of a rate case. And in that regard that fight is really a zero sum gain because as I've mentioned, by this time we've decided how big the pizza is, how much revenue is the utility going to collect, and now we're simply talking about which class is going to pay how much of that revenue requirement.

[10:40:34 AM]

The last step in a rate case is rate design. Basically this can be thought of as how are we going to design rates in a manner that allows the utility to collect their revenue requirement. And if we don't do this properly a utility can over and under collect that revenue requirement. So there's attention to defining those -- defining those rates and that's done by making estimates as to what are the total amount of billing units, and in this case billing units can be thought of as kwh's, that we're going to sell during the rate year. And once we know that then we can determine what our rates need to be. And I've got a simple example here. Let's say you approve a revenue requirement of one billion dollars for Austin energy. And they are expected to sell one billion kwh in the year. In that instance you would have one billion kwh. If Austin energy did sell one billion kwh, they would sell exactly their approved revenue requirement. As you expect that's never the exact case. You could have more growth on your system than you expected. You could have more conservation. You could have a really hot summer. If you have a really hot summer the air conditioning goes up, the kwh sales go up and you have more revenues to the utility. So it's important then when you're designing rates to get that number that is the billing unit number, accurate. And experts will look at it as sales during the test year and they will make adjustments to the billing units just as they do with respect to the revenue requirement to make the test year more representative of what is expected in the future. And so, for example, I've noted here weather adjust minutes. If a utility has had a very, very hot summer or a hot year overall during the test year, it might be appropriate to adjust the test year sales in a manner that more normalizes weather.

[10:42:52 AM]

And so consultants when they're designing rates, they're examining what were the sales during the test year, how do we make it more representative of what is likely to occur once rates go into effect? And this is all done with a desire to match exactly the number of sales to the expectation such as you have an appropriate rate and the utility recovers their full revenue requirement. And just to take it one step further I've given you another example here, if you approved a revenue requirement of a billion dollars and we only had five hundred million dollars of sales -- 500 million kwh of sales, then you would have a rate that is twice as high. So from a utility perspective they would have a higher rate, but then if they ended up selling more than that 500 million kwh then they would have revenues in excess of the revenue requirement. Now, they may have some additional costs as well, but all things being equal in that circumstance the utility would have overrecovered their revenue requirement. So it's important not only that you set the revenue requirement properly, that you allocate it to the classes properly, but you design rates in a proper manner such that the utility is made whole without overcollecting. Of course, there are obviously steps that you can take to correct for that if necessary. And then lastly, I mentioned a moment ago the difference between base rates and other charges that are contained in the utility's bill. And here in Austin, of course, there's a number that are listed on this slide. There's the power supply adjustment which collects the power supply and the power supply contracts. There's the community benefits charge which collects energy efficiency costs, customer assistance program costs, surface area street lighting, and there's a regulatory charge which collects transmission cost of service and various ERCOT charges.

[10:45:00 AM]

All of these types of rates are what is referred to as a pass-through, meaning that the utility makes an expense and they're able to collect that amount in their rates and so it's more in the nature of a true-up or reconciliation, and with respect to the power supply adjustment, the ae has a specific tariff that provides for adjustment mechanisms if they overcollect or undercollect. So that's pretty much a high level summary of how rates are set. I'm happy to answer any questions that you may have. I know I threw a lot at you. It's a complex process. And there's lots of subjects -- there's lots of opportunity for disagreement.

>> Gallo: Councilmembers, any questions? Thank you very much.

>> Thanks so much. Appreciate your time today.

>> Casar: Actually, can I ask one really brief one? Thank you for the presentation and for being so thorough. You mentioned that the cost allocation portion between classes of the rate-making process tends to be very contentious and I expect that it will be and potentially should be. Are there a couple of guiding principles that you might leave us with to be able to make sure that we engage in that process in a way that's fair despite contention?

>> Sure. I'm no economist, but there are some general principles that apply with respect to cost allocation. And one, quite honestly, the most fundamental is cost causation. Basically those customers that cause a particular expense would be the ones that should bear that cost. But there are a number of other principles that are also important such as the impact of a rate increase on a particular customer class, moderating those impacts if a rate increase, for example, were to cause rate shock. There are intergenerational issues that come up, meaning that we want the customers that are going to get the benefits of certain investments to pay for those investments.

[10:47:07 AM]

There's a number of principles like that that all really go towards making sure that the right customers are paying for the costs that they create.

>> Gallo: Thank you.

>> Thanks so much.

>> Tovo: I just wanted to thank you. I just sent you an email to this effect, but I wanted to thank you for such an extremely clear presentation. I spent a lot of time last time trying to figure out what some of these terms meant. So having them laid out at the beginning in such an easy to understand manner is just really, really helpful. Thanks so much for being part of this session.

>> Thanks.

>> Gallo: Councilmember Zimmerman?

>> Zimmerman:, I wanted to concur. It was a very good presentation. And whether you're public or private you still have to go through these same exercises. But my question has to do with our bio mass power plant. We're still under a really bad contract here at Austin energy. And if you could comment on how one of the differences when people are making these plans, designing the rates, looking at their investments for power F a company -- if a company of many companies makes a really bad choice and makes a wrong prediction about the future, they would be allowed to go bankrupt because they've made some terrible financial decisions and the rest of the companies would carry on. But when I have a municipally owned utility, if there's a similar type of bad decision, there seems to be no way for me to let that go and correct it and take it off the books and go forward. So Austin energy is still having to pay, right, for this bad bio mass decision, whereas if I had several private companies we could let that one go out of business and the rest go on. How does that factor into your lecture on the rate-making, the fact

that we have to keep paying for past bad decisions?
>> Well, first of all it depends on where you're located.

[10:49:08 AM]

If you're in a deregulated parts of the state or you're in the regulated parts of the state. The supreme court of Texas has made it clear that the commission at least gets one shot at prudence. When a utility has made an investment and they seek approval, the commission can find that that investment was imprudent and have a disallowance. The same would be true of power contracts. The commission could -- can review those in the regulated parts of the state and make a determination whether that investment is prudent or not. They can't come back, however, and say later on that we said it was good there in the past, but now things have changed and we're going to make a prudence finding in the future. I will say that in 2004 through really 2008 I spent the good part of four years of my life arguing about stranded costs. And stranded cost of course is the difference between what the regulator had said was prudent investment and what the market once we went to dereg said was prudent investment. And ratepayers paid and are still paying across the state those costs. So I think the long and short of it is generally the regulator gets one shot at prudence and it depends really kind of where you are as to what the implications of that are. If you're in a deregulated wholesaler cot market and you make -- ercot market and you make a bad investment you pay the price for it. If you're in a regulated environment and the commission says that we found this to be prudent, ratepayers are going to pay for it.
>> Are there any other questions? Okay. Thank you.
>> Thanks so much.

[10:51:20 AM]

>> Good morning, mayor and councilmembers and chair woman, Elaine hart, chief financial officer. I'll get my tongue going here. I've enjoyed the other two speakers and I'm the wrap-up presenter on this section. I'm going to talk about a lot of dollars and cents. This is an informational presentation. Much like the other two I'll cover the general fund transfer and the payments for services that are received by other city departments. This is the run down on the topics that I'll be covering, and I'll go through some of them fairly fast. You're welcome to interrupt, ask questions as we go. You know, the other two speakers have touched on this, the benefit and the value of Austin energy as well as the water department, water utility. Is the local ownership and the control. And the council as policymakers can work -- does work to balance those community needs and priorities. With respect to Austin energy those priorities may be clean, affordable, reliable energy and excellent customer service. It may be the assistance programs to our low income customers. It could be determining what the appropriate return for the risk of ownership of the electric utility is. And then again, the utility just like any other business in town benefits from some of the local government services provided by the general fund. In this presentation I have tried to make this as generic as possible. A capital U utility is meant to imply that this concept applies to both Austin energy and Austin water utility because I know that the council is concerned about the transfers from both.

[10:53:22 AM]

Where it's specific to Austin energy I will point that out to you. The general fund transfer, as has been mentioned, is common for city-owned utilities. But there is no right or wrong amount. There's no right or wrong method. The most common method across electric utilities is the percent of gross revenue. Across water utilities they have what's called a pilot. That's not like a pilot program. That's a payment in

lieu of taxes. So they actually do a calculation based on their assets and then many of them in Texas also pay a franchise fee to their cities. The city has had a long record of complying with council-approved transfer policies. Those policies have been in place since at least the 1950's. I did go back at least that far. And they have not been changed frequently. So they are looked at very carefully when they are changed. I do want to point out that with those transfer policies in place there's not this struggle every year to try and balance the city's budget needs with those transfers. And that's the protection to both the utility and the city. I wanted to talk about the components of the transfers and payments. Transfers are typically not a payment for services. And that's a terminology I'll use kind of consistently. Payment for services may be presented on our fund summaries as a transfer because that's our mechanism to move money between funds. And so there may be -- that may be where some of the confusion in the public has been created because we use that term transfers interchangeably.

[10:55:33 AM]

The general fund transfer is not a payment for service, but, for instance, a payment from the utility to the fleet department, the fleet fund for fleet services, that might be a transfer. Or to the support services fund, that will be reflected in your budget fund summaries as a transfer, but those are payments for services on a cost reimbursement basis or based upon cost allocation plans. I did just really want to narrow down that definition of transfers. So it's not a pizza pie, but it's a pie chart. And this represents the total payments of all exchange of monies between Austin energy. This is specific to Austin energy, and other city departments. In addition, we have added what is labeled here as community programs. Those are payments that, as you'll see detailed later, that are made by Austin energy on behalf of community functions. With respect to the total payments, this is the 150-some-odd million-dollar number that gets batted around a lot in the media. As you can see, 105 million of that, or virtually two-thirds of it is for the general fund transfer. Another 27%, including the internal service funds and the other payments for services, which are the yellow and the light blue area, represents 27% of the total. So about 94% of the total amount is related to the transfer and then payments for reimbursements of services provided.

[10:57:38 AM]

I think the interesting thing, if you'll note the bottom chart, you can see that the amount has been relatively stable over the last six years. It's in the \$155 million number. But you can also see the trend lines of the other payments amount has gone from 15 million in 2010 down to about 7 million in 2016. And you can see the economic development number peaked in 2014 at about 12 million. It's down to 9 million. And we'll talk a little bit more later and show you some detail about why those are going down, but even while I was cfo at Austin energy, ed van eenoo, but deputy cfo and budget office and I worked very hard to focus on those things that we could take off this list. And so that is part of why those Numbers are down. Again, the city benefit of having the ownership of the utilities is through these payments and transfers. The general fund transfer is an authorized transfer. It's authorized by state law. It's approved via ordinance. When the council approves our financial policies. And it really is a return on investment to the city owner, or the taxpayers. It's a natural result of that ownership risk in operating these utilities. The utility general fund transfer was started in 1946. Historically, this city has used a percentage of revenue.

[10:59:40 AM]

It has been total revenue most of the time. In 2012 we changed the formula a little bit to exclude the

power supply. It's important that you look at the continuity of the transfer policies, because they can impact both the credit rating of the city as well as the utility. And it's something that the credit rating agencies look at very closely. They do not want utility transfers changed as financial crises may hit the city during a recession. They don't like to see transfer policies change at that time to help balance the general fund side. This is a look at general fund revenue. You've seen this slide before. It's one that we present every year during budget. This one covers fiscal '16, the current year that we're in. On the left is a pie chart. You can see the yellow portion is the utility transfers from Austin energy and Austin water. They total about \$145,800,000. Of that, Austin energy is 105 million. That represents about 16% of all revenues that come to the general fund in '16. I'd like to note that the general fund reliance on these utility transfers as a revenue source has declined. And over that time of the decline, there's been more reliance on property tax and sales tax as a resource. If you look at the chart on the right, you can see the increase in the revenue sources comparing the current year budget to the prior year estimate. And about 50% of the increase in revenues came from property tax increases. About 22 million out of the 45 million total.

[11:01:43 AM]

And while we as a city have, over time, reduced our reliance on the transfer as a resource for the general fund, San Antonio has not. They have maintained about a 30% transfer to their city. Cps energy is the electric company in San Antonio. Their transfer is 336 million this year, and it represents 31% of the San Antonio general fund budget.

>> Can I ask a question about that previous slide, about the comparison to cps? Is that an apples to apples comparison, or does that \$336 million number include the other expenses that you said are not included? I mean, is that an apples to apples comparison, or do they fund pieces of their city services in different ways than the city of Austin does?

>> I have a slide later, but I'll cover it now. San Antonio was purchased by the city of San Antonio by the issuance of revenue bonds in the mid-1940s. In those bond ordinances, they specified a maximum amount of 14% transfer rate on gross revenues. And so they started out as a privately owned utility, and the public holdings act of 1935, they were determined that they needed to split up the company, and so they sold it, because they had a monopoly that was too big. San Antonio purchased them. In setting up the original bond ordinances, that is the only payment that San Antonio gets from cps energy. They have never shared services. They were a separate organization when they were purchased.

[11:03:43 AM]

And so that is the only payment that they get.

>> Troxclair: Okay. So that shouldn't be directly compared to the \$105 million transfer that we make, because it's not apples to apples.

>> You can compare it to the 155. That's all -- we get 155 million as a city from Austin energy. As a city, San Antonio gets 336 million. Their revenues are larger than ours. Their transfer rate is 14%. Ours is 12%. Their transfer includes all revenues. Our transfer includes only non-power supply. So there are differences in the formulas.

>> Troxclair: Thanks.

>> This chart provides you a detail for the same time period of the transfer from Austin energy and usa water. At the bottom it gives you the formula for both of those transfers. As I said, we changed the policy when we were doing the rate proposal and the presentations -- the work sessions in 2012 before the council approved the new rates. We did a presentation much like this, ed and I did. And the council chose to change the policy. The current policy is 12% of a three-year average of non-power supply

revenue. At the time we established a floor of 105 million, and this is the fifth consecutive year that they have been at the floor. And I've got -- I'll talk a little bit more about that in more detail, and about why we changed that policy. It has not changed since 2012. For Austin water, their transfer rate is also based on a three-year average, based on their gross revenues. That has been in place for 16 years.

[11:05:45 AM]

It's not changed since fiscal year 2000. Again, this chart shows you graphically from 1997 the general fund transfer from Austin energy in yellow, and the transfer from Austin water in blue. At the top it gives you the amounts and shows again that the reliance of the general fund on these transfers has decreased over time. I want to focus now a little bit more on the transfer policy change that we made in 2012 for Austin energy. Again, it's 12% of the three-year average. We retained that three-year average because previously we had had the power supply revenue in it. And with that in it, and the changes in gas pricing, you could have spikes, as the previous slide showed you. You could have spikes. So we use the three-year averaging to smooth any spikes out. So we kept that component of it. We did change from total revenue to exclude the power supply revenue. And we did that in looking at what the utility needed to meet their business model needs. The financial policy had always had a maximum rate of 12% for the Austin transfer, but we had been at a 9.1% that had been established when deregulation was being discussed in the late 1990s. With the exclusion of the non-power supply revenue, it allows Austin 100% to retain 100% cost recovery of their power supply revenue.

[11:07:48 AM]

So, previously when the power supply revenue was in the transfer calculation, at the 9.1%, for every dollar they received of the reimbursement of the cost from the rate payers for the power supply, they only got to keep 91 -- yeah, 91% of it. They gave the city 9% of it. So they were not retaining full recovery of their power supply. So that was part of the restructuring. And when we did this, we didn't change the financial policy, 12% maximum. So when we switched -- when we pulled out roughly 500 million in revenue out of a billion and a half revenue, we had to set a floor, because the reduction at the 12% of the nonfuel revenue would have been too large for the general fund to handle. So we mitigated that impact to the general fund by saying we're going to set the transfer rate at the current year rate, and we're going to keep it at that rate until we can adjust to the new policy. And so I believe the Numbers that we are preliminarily looking at is that this will be the last year. We may see a slight bump in the transfer in the 2017 timeframe, but we've had literally a five-year transition period to, if you will, grow into this transfer change that we made. It was important to Austin energy. It was a cleaner way of doing it. We did have extensive meetings with the rating agencies that summer to explain the purpose of the change in the transfer. As I said, it was the first time we had changed the transfer since 1999, 1998-99, and so there was a lot of attention to it.

[11:10:01 AM]

If you look back at the time that we were making the change,s, as the council approving the change in the policy, the forecast for that year, the 2012-16 forecast projected a general fund transfer in '16 of 116 million. And what we are getting in '16 is 105 million, which is a single-year savings to Austin energy due to that policy change. But it was over that five-year period a positive change for Austin energy. And the general fund transfer now is based on more of an economic, more level, more predictable increase. The increases in the number of customers, as well as the increase in usage . . . Customer usage.

>> May I ask you a question before you go on? If you look at the 2015-2016ae transfer, the floors of the

105 million, I'm trying to understand if that is a cap or if it's a minimum. If you use the formula, the 12% of the three-year average of non-power supply revenue, would the amounts -- and didn't have the floor in there -- what would the amounts have been, if you did not have the floor?

>> My recollection for '16, it would've been 103 million. I can go back and look. It was pushing up right at the 105 million, but it wasn't quite there.

>> What about the year before, what about '15?

>> '15, I don't know the number. I have the calculation, but I'd have to get the information for you.

>> Gallo: So really, the floor is a minimum. So the percentage calculation would've been a lesser amount than the floor, which was actually -- okay, thank you.

[11:12:01 AM]

>> Again, that was to mitigate the impact on the general fund.

>> Gallo: Councilmember Zimmerman?

>> Zimmerman: Help me understand. I had kind of the same question. The number here is set at 12%. But then there's -- it's stated that there's a floor. So in other words, it's going to be either 12% or the floor. Doesn't that imply that if we hit the floor, the percentage is actually larger? If it's just straight 12%, would that make it go past 105 million?

>> To the extent -- maybe floor was the wrong word to use. To the extent that the calculation of the transfer with the 12% and the power -- the non-power supply revenue did not reach 105, we left the transfer rate -- the transfer amount at the 105.

>> Zimmerman: Which means the percentage is larger.

>> Gallo: Right. I think what she explained to my question is that the 105 is actually the minimum amount that it can be.

>> Zimmerman: But it is a higher% than 12%.

>> That's correct.

>> Zimmerman: Is it 12.1, 12.5?

>> Gallo: If you would like those figures --

>> We can provide it. It would have been a substantial reduction in the general fund transfer at a time when the general fund was still trying to recover from the recession.

>> Gallo: All right. Thank you.

>> Casar: Chair. Sorry. What I'm hearing now is for this year, we will be at 12% because 12% will generate more than 105 based on our calculations.

>> For the forecast year, I believe, yes, sir. And the 12% is the maximum.

>> Casar: Right. So, even though in the past recovering from the recession, we maybe had to transfer more than 12, the prediction this year is that we'll be at 12.

>> That's correct.

>> Mayor Adler: You're going to be covering this, apparently, later in the deck.

[11:14:05 AM]

But just by way of comparison, cps in San Antonio has 14% of their gross revenue, is that what they use?

>> Yes, it's 14% of all revenues.

>> Mayor Adler: Okay. I'll wait for that later slide. Thank you.

>> Pardon me?

>> Mayor Adler: I'll wait for that later slide. Thank you.

>> Gallo: Mayor pro tem tovo.

>> Tovo: I thought during the first rate case staff provided us with that information about how Austin

energy's transfer rate compared to some other municipal utilities. Maybe somewhere back in that old information, we've actually got Austin energy compared to -- because we had gotten some white paper. There was a considerable amount of discussion about this issue.

>> That's a great lead-in to my next slide.

[Laughing] As I said earlier, there's no right or wrong method, or amount. But the American public power association -- which is the electric public power systems association -- does a study, or a survey of all their utility members every two years. And what you see here is a graphic representation of the results of their studies from 2000 to 2012 data, which is the most current data. They should have another -- I expect another report out this spring. Usually it's springtime. The last one was out in 2014 in the spring. They had 210 public power systems that completed this survey. Their median transfer across the nation is 5.5%. There were 34 public power systems that responded to the survey with revenue over \$100 million. In that category, Austin energy certainly would fit in.

[11:16:06 AM]

Their median was higher than the national average. It's at 6.4%. And so you can see those two -- the very bottom line, the green line on the graph is the all public power systems. The red line in the middle is the public power systems with revenue of 100 million or more. But what I like to focus on is the west south center region, which includes Texas, because there are a number of Texas utilities that have much higher transfer rates than is customary in other sections of the country. And that is the top line there. And for the 15 public systems that responded to the survey, their median was 6.5%. And 50% of them were between 5.5 to 10.7%. So when you take the smaller utilities that tend to have a smaller transfer rate, and you add in San Antonio, cps energy at 14%, and you add Austin energy at 12%, you get a higher average. And I did do an update this week, just looking at a few of the utilities elsewhere in Texas. Brownsville P.U.D. Transfers at 10% of their gross revenues. Garland power is at 8.1%. That's Garland power and light. And the College Station utility is at 6.9%. All of those transfers are based on gross revenue or total revenues with the exception of Austin energy. We are excluding our power supply. So this will give you a little bit of an idea of how we compare, how we stack up.

[11:18:07 AM]

On the water side, these Numbers are really not relevant, because they're specific to electric utilities. On the water side they don't really have an association that does this kind of survey. But in looking at water utilities in Texas, they do typically have what we call a pilot, a payment in lieu of taxes. That's taking the tax rate and their investment in their assets that are in the city, and calculating of what would be a tax bill for them. And then they do pay a franchise fee to the cities where they operate. That can be anywhere from 4 to 5%. And so their transfer rates are anywhere from 5 to 8 -- a little bit over 8%. So I did look at those as well. But I would caution you not to look at national information, because it needs to be more specific here for what we experience in Texas.

>> Gallo: May I ask you another question regarding the transfers to the general fund and comparing it to these other areas, other communities? So we're looking at just general fund transfers, but we transfer also out of a -- into economic development and community programs. As we're comparing to the other communities, do they do the same thing, or how do you make those calculations so it becomes more apples to apples instead of apples to Oranges?

>> When I focused on this survey, it was just the general fund transfers, but the report actually speaks to the other payments that they make. And so we just haven't pulled that comparison together, but they do provide that information in their survey. It's not as easy -- you kind of have to have the two lists and kind of pick and choose and match and reconcile, so it's not easy to graphically demonstrate, but they

do look at that as well.

[11:20:18 AM]

And many of the other electric power systems provide payments for services, and cost allocation payments for general administrative costs.

>> Gallo: So that could be done based on the survey. The survey does have the information if we wanted to try to pull that together.

>> It has limited data. We could survey some of the other Texas utilities to see what they're going.

>> Gallo: Thank you.

>> Troxclair: Another question on this slide. So, just to be clear, these percentages do not include the 50 million or so in support services transfers that Austin energy makes?

>> These are the general fund transfer only.

>> Troxclair: General fund transfer only, okay. So even if we look at the 15 public systems in west south central region, and the median being 5%, Austin energy is still transferring more than that. Our transfer rate is higher than 6.5%.

>> Yes, it is. It's at 12. These Numbers are based on transfers that are on gross revenue also. So they have pulled -- they have not pulled the power supply revenue out. That's why our percentage is higher.

>> Mayor Adler: If we were to pull out 14% of total revenue like San Antonio does, how much would we be pulling out? And this is to compensate the citizens of Austin as the owners of the company. This is the owners' dividend, in essence. If we did the same thing San Antonio did and we took out 14% of the gross, what would the transfer be?

>> I haven't calculated the number.

[11:22:20 AM]

It's whatever 14% times a billion and a half is.

>> Mayor Adler: Okay. Thank you.

>> I believe it would be much higher than the 155 million.

>> Mayor Adler: Okay. Thank you.

>> Mmhmm. Okay. In response to the public utilities committee agenda item, and a resolution sponsored by councilmember troxclair, we did -- the next two slides really repeat what we did for the committee. And it just points out that if the utility transfer -- either the electric or the water transfer -- were significantly reduced or eliminated, the general fund has limited ability to replace that revenue source. Our most controllable revenue source, our four big ones are property tax, sales tax, transfers, and other fees. Our most controllable revenue source is property tax. And our ability to increase the property tax is limited by the rollback or pevato limitation. If you were to take out the entire general fund transfer from the two utilities, both electric and water, of \$145.8 million, you would be looking at replacing 16% of your general fund revenue. And that would require going over the rollback limit to offset that revenue loss. If you go over the rollback level for your tax rate, voters may petition for an election on that tax increase. And if the election is successful, the taxing unit's tax rate will then be rolled back or moved back to the rollback tax calculation. So you will have a revenue shortfall in your general fund.

[11:24:20 AM]

And I would point out that the 145 million is roughly the equivalent of the health department and the parks department. That would be the -- to give you a sense of size of what kinds of cuts would have to

be made. In our general fund, property tax and sales tax are not sufficient to pay for our public safety requirements any longer. So, we've estimated elimination of the 145.8 million would require a 13.37 cents increase in the tax rate. It would have roughly a \$291 annual impact on the owner of a median-valued home. And the current tax rate that was approved is 45.89 cents. It is slightly less than the rollback rate of 46.09. So there's not much head room there to absorb that kind of revenue loss.

>> Troxclair: I just want to be really clear that I don't think that anybody, including myself, is advocating for this. This would -- this slides speaks to, if we completely eliminated the transfer all in one year, we made no reductions to spending, and we just transferred it all to property taxes. So I just want to be clear that nobody here is advocating for this. I understand it's helpful to have as a benchmark, which is why I included it in my resolution, but I -- this is the most extreme scenario. And there's a lot of other options and information that I think that we would want to explore before even deciding if a reduction is prudent or necessary.

[11:26:32 AM]

>> Gallo: Councilmember Zimmerman.

>> Zimmerman: Thank you, chair Gallo. So, let me say a couple things real quickly about this idea of dividends, you know, for, you know, the community that owns the utility company, per Se. Let me quote the dividends to you quickly for some of the largest electrical utility companies. Duke power, their dividend is 4.8%. Dominion resources, 3.8%. First energy, 4.6%. My favorite, the southern power company, who profits from the bio-mass plant in east Texas, their dividend is 4-point%. One of our speakers previously pointed out that typically dividend reflects risk. So the higher the risk, the higher the dividend. So what doesn't make any sense to me is that the city-owned municipality, if we make a horrible decision, say in a bio-mass plant, we just charge customers more. So there's no risk to the utility. So to me, the dividend or what we pay back in transfers should be 1% or 2% instead of 12%. Just kind of looking at it from a common-sense viewpoint, if we want to make that comparison.

>> Gallo: Are there any questions? Okay. Mayor.

>> Mayor Adler: If we were to make these -- end the transfers, you're saying it would increase the impact on the average home about 290 -- or the median home value, \$290 a year. What would the savings be for the utility customer? Do you know what the corresponding savings would be?

>> I don't have the rate impact information on Austin energy.

>> Mayor Adler: It would be something less than -- would it be something less than the increased cost to the median home?

[11:28:36 AM]

>> I'd have to get them to do the calculations. I don't have that information.

>> Mayor Adler: I guess it would depend on what the overlay is of the city taxpayers versus the city rate payers.

>> Right.

>> Mayor Adler: Thank you.

>> Gallo: Mayor pro tem tovo.

>> Tovo: I think Ms. Hart was saying something else. I mean, this is obviously a much longer conversation, but because those two things don't overlap and we actually did some calculations during the last rate case about the number of individuals and the percentage of individuals who live outside the city limits and thus don't pay taxes but live within the Austin energy service area who actually work in the city of Austin and drive on the roads that we pay for through our general tax, through our general fund revenues -- I mean, there are all kinds -- maybe that's not a great idea, that's the transportation

fund. You know, we actually have some percentages out of city rate payers and the services they use that are funded through our general fund revenue. In other words, you know, there are people -- if we fund it through the general fund, rather than through rates in part, then you have people who are using these services all the time that are supported by the general fund who contribute to them not at all. So I hope that's also a consideration as we continue this dialogue.

>> From the utility side, in their bond ordinances, both water and electric are very similar. They have a rate covenant that says that they have to recover rates sufficient to pay for their operating and maintenance, their debt service, and to maintain an adequate debt service coverage ratio, which is the extra margin to ensure the bond holders that you've got sufficient money to pay your debt service when it becomes due.

[11:30:36 AM]

And so because of this rate covenant to provide the debt service coverage, if the general fund transfer were eliminated or substantially reduced, it's going to limit the immediate reduction in rates. You would again have to -- you would see a rate reduction over time, but you wouldn't see an immediate reduction for the full amount of the lower transfer, because of this way that the rate covenant is written. What would happen is, obviously the cash in reserves would increase, and then that cash could be used over time to pay for their capital program to avoid issuing future debt. And as that -- you issue less debt, you're not going to build the debt service requirements. They won't be growing. And so that is what would allow for the future rate reductions, but still allow for meeting that bond covenant for the debt service coverage. And so this is a slide that we've seen before, but I'm going to dissect out the payment for services in the next section. We'll talk about those in detail, specifically the internal service funds, which are 35 million or 23% of the total payments, and then some other payments for services which are about 4%. When we talk about internal service funds, they include a variety of funds. There's ten funds that we include in our budget, capital projects management, the ctek, the emergency center, the communications and technology management employee benefits, which is a self-insurance fund, fleet services, liability reserve, support services, vehicle acquisition, wireless communications, and workers compensation.

[11:32:41 AM]

Just specifically internal service funds are where goods or services are provided by one city department to another city department on a cost reimburse reimbursement basis. They do not have a profit motive, so their charges are based on cost reimbursement and allocations. These costs are -- the movement of the money is recorded as a transfer, although these are cost-based payments. And they're based in many cases on service demand, in particular fleet, how many vehicles you have, what the maintenance demand is on them, as well as how much fuel you use. Or they may be based on an annual cost allocation plan. If these services were not provided by these internal service funds -- for instance, if Austin energy no longer used our fleet department, they would either have to contract out with a vendor to manage their fleet and maintain their fleets or vehicles, or they would self-perform. So it's not like the cost would go away. You know, you can argue that the cost may be higher or lower, or whatever. But the cost would not -- to Austin energy would not go away. They would still have to maintain their fleet. They have a large field operation, and a fairly large fleet. So that's an example of how these work. In the city we've centralized certain activities into internal service funds to gain better management control over them and to control the cost citywide. This chart at the top of the page details all of the internal service funds that Austin energy has payments to.

[11:34:44 AM]

And so for 2010, it was 27 million. By 2015 it was 33 million. These increases over time are due primarily to our basic cost drivers for all city departments for compensation adjustments, health benefits, and then also it could be the volume of the vehicles being used and fleet fuel prices could affect those costs. Support services fund is our citywide cost allocation of really what we consider general and administrative cost for the city. That includes the mayor and council offices, the city clerk, audit, law, financial services, human resources, management services, building services as well. We recover these costs through an annually updated cost allocation plan which we've used for over 30 years. It is considered a best practice by cities to use cost allocation plans. The plans are audited by external auditors as well as grantors, and we do follow the standard guidelines and best practice guidelines in our development of our cost allocation plan and update annually. For the support services fund total budget for 2016 is \$116 million. The general fund allocation of that is about 43% at 50 million. Austin energy's allocation is 19% at 22 million, and Austin water is allocated about 11% for 12 million. And I will note that when I looked at San Antonio, most of these departments are general fund departments for San Antonio. They do not have a separate support services fund. So their transfer is actually paying into the general fund for them, which covers some of these costs.

[11:36:51 AM]

For communications and technology management, that includes -- the combined includes ctm. It includes sea-tac, the emergency center, and the wireless. I've shown down at the bottom the Numbers for 2016. The total combined budget is \$88 million. And the general fund is paying 52%. Austin energy is allocated 8.3%. And Austin water is allocated 4%. Austin energy does share some of the city centralized information technology services. They use some of those. They also have their own information technology staff. They maintain their own network to connect all of the substations to the power plants, and so they have more specialized it staff, and they do support their own billing system that's not supported on the city side. So they have some additional I.T. Costs, and that is one reason that their allocation is not much larger than it is. The general fund allocation certainly is affected by the public safety, which is very highly technology-driven. Again, the ctm combined costs are allocated based on an annually updated cost allocation plan. We've talked some about fleet. Our fleet department provides a full range of services. They manage the life cycle for the fleet and equipment. They do all of the acquisition citywide for vehicles. We've got some, I think, on today's agenda. They handle all the fuel operations, the maintenance service centers, repairs, and the sale of those surplus vehicles.

[11:38:52 AM]

Their budget for 2016 is \$43 million with 93% of that related to maintenance services and fuel. Ae is paying 3.4 million of the 43 million. And I think we've covered most of the risk for that. They do create rates for their maintenance. They actually go through a rate process internally. And then we set the fuel price once a year. And we update it annually with the budget. So some years they will under recover, and some years they will overrecover, but it all will even out eventually. With respect to employee benefits, as I said, the city is self-insured for employee health benefits, and there is an amount that we budget each year per employee for every fund department that has employees. It was \$13,140 for 2016. So there's no allocation there.

[Coughing] Excuse me. It's just a flat amount. The liability reserve is a means of funding for liability claims and losses based on the experience of individual funds. We've had a history of both water and electric transferring transferring. their experience has been a \$400,000 transfer. I talked to both the cfos

at both utilities. We will be proposing an elimination of these transfers in the budget, they will be responsible for any claims in their own budgets. They may have to come back to council if a claim comes up and they can't support it in their existing budget allocation, then they may have to come back to council, but we will be eliminating the transfer for liability reserve in the future for both utilities.

[11:40:54 AM]

Workers compensation is funding for medical expenses for job-related injuries. We need to keep this one as a transfer because we need to manage it in a central place just like we do our employee benefits funds. The total budget for workers compensation for '16 is \$12.5 million. Of that, the general fund was allocated 52%, ae was allocated 15%, and water was allocated 10%. So I've covered the internal service funds, and I said there were some other payments for services that are kind of outside of these internal service funds. And these have decreased over time. I do have a slide that will provide some detail on some of these. Actually, I don't. They were 15.5 million in 2010, and they've declined down to 6.8 million by 2016. Some of the larger items that are included in here are the 311 call center that is staffed by Austin energy, and is used by the other departments. And so they make payments into that to -- based on cost allocation to recover their cost. They also have several purchasing staff that work for me that are housed onsite at town lake center, the administrative services. They work only on Austin energy procurements. The cost of that staff is about a million and a half, including all their benefits. They also pay a million dollars of the cost of the operation of the sustainability office, which manages the client protection plan for the city and monitors that. And in addition, they have for the last several years been paying building services for janitorial services at just a little bit less than a million dollars.

[11:43:12 AM]

And then I wanted to point out as part of the discussion of the economic development department, I wanted to highlight in 2014 budget, the council approved some staff-recommended revisions to the cost-sharing funding models both for economic development as well as the 311 call center. We changed the allocation basis to the number of service calls for the 311 call center. And for the electric department, when it was originally -- excuse me. For the economic development, economic growth and redevelopment services office had been established in 2001 as an office within the department of Austin energy. And so in 2014, we moved it out of their fund and created a separate department, a standalone department. Also in 2001, it was originally the plan that they would pay about 1% of their revenue to fund the economic development. All of that was brought forward with budgets, and that was the only funding source for many years, as you can see in this chart, the only funding source for economic development was -- of the office was from Austin energy. You can see beginning in 2010 it was \$8.5 million. So the new revised model, the cost for the economic development department is shared by the general fund, Austin energy, Austin water, Austin resource recovery, based on a percentage of gross revenues. The thought was that all of these enterprise funds benefit from economic development activities, and they should all pay a portion of the cost. It was a phased-in plan, and next year, 2017, the last year of that transition.

[11:45:15 AM]

But you can see for Austin energy the fiscal '14 was the peak of their contribution for this department at 11.4 million. And it is down to 9 million in the 2016 budget. And we expect that depending on what citywide cost drivers are doing, we expect that they should continue to see some reduction. >>Allocuex me, may I ask a question? Wait, maybe -- let me see your next slide. That may answer my question. It

may. But specific to economic development, could you be a little bit more specific with the benefits to the Austin energy department, the benefits from economic development? I mean, specifically, what does that department do that benefits the customers?

>> Sure. We haven't -- it hasn't happened in a number of years, but, you know, we have the 380 incentive agreements. When we bring a new large employer to town, back in my tenure in Austin energy, we were bringing a large improvement out at Samsung. And so they -- economic development department, along with the chambers, brings new employers to town. Employers have employees. They all have homes. They all use electricity. And the employer becomes the large customer. So it's a new customer base for Austin energy. And so for the large customers, we like to meet with the economic development staff as well as the potential new customer to find out what their specific needs are with respect to Samsung and some of the other tech companies that were coming to town while I was with Austin energy, you know, they have special needs because they have to have electric reliability. And so it's a benefit to have that central coordination, and someone who's getting all the departments that are affected, Austin energy, Austin water, they have special needs there for water, as well.

[11:47:26 AM]

So it's just a centralized place to control that. And so that is the benefit, is new customers increase revenues to the utility and then their costs can be shared over a broader customer base. So everyone benefits from that.

>> Gallo: Okay.

>> And then the last piece of the detail here -- and I apologize, this is small -- but this is the complete list of community programs that are contributed to by Austin energy. And you can see in 2010 -- and I'll read you some of the lists, some examples are Christmas lighting, holly good neighbor program, community mentor initiative. But the total cost in 2010 was about \$2.5 million. And that has been reduced down to about \$829,000 by the current year budget. You know, these are things that a large corporation in town would contribute to. It's not unusual to be asked to buy a banquet table at an event. It also provides Austin energy the ability to be out in the community with their banners and some branding. You'd be surprised how many people think that Austin energy is a private company and don't know that it's city-owned. But, anyway, this is the list. Many of them are long-standing programs, and these -- the decisions about these are made by Austin energy. And then last, the city does pay Austin energy for services that are provided by Austin energy to the city. Those include the billing and collection service. Austin energy bills for five departments, electric, water, water and wastewater, Austin resource recovery, transportation, and drainage.

[11:49:33 AM]

In addition, they provide 311 call center services. The other large payment that the city makes is for electric service. There is no free electric service for city departments. And in addition to that, one of the initiatives the council had years ago was to make the -- all city departments 100% renewable. So we purchased part of batch 6, which is the most expensive batch of green energy that Austin energy offers. And the end date on that contract is 2021. And so they have somewhat restructured their newer renewables programs, and they are now offering -- currently they're offering commercial green choice rates of 4.6 cents, 4.7 cents, so it's a little bit cheaper than what we're paying, but we like to be green. And I said I had some slides on cps energy. Again, I said they were a private company that was required to break up. And so they purchased a combined utility. They provide electric and natural gas utility service. And they purchased that in 1942. They issued revenue bonds. At the time the bonds were issued, they wrote the bond ordinances. In those bond ordinances, they credited transfers from excess

revenues, if you will, of 6% to cps to retain in a repair and replacement fund, and 14% to pay the city of San Antonio for the benefit of ownership. I will mention that cps energy's financial report is included in the city of San Antonio's annual financial report.

[11:51:38 AM]

We've talked about the transfer amount. Again, it's a significant part of their general fund funding. The next slide is an excerpt from a powerpoint from the city of San Antonio budget. It shows you a breakdown of both their -- how their revenues come in, as well as their requirements are in the middle of the graph. And it shows you that their cps revenues are not -- this is how they graphed it, but they're not covering the police and safety, but they are a big chunk of their budget. They're about a third of it. The red box on the bottom is highlighting for you that the administrative services, or the support services, are included in the general fund for San Antonio, which is not like what we do here. We have a separate fund. And that concludes my presentation. I'll be glad to answer any other questions. Or, you know, if we can provide additional information, we certainly would be glad to do that.

>> Gallo: Councilmember Zimmerman.

>> Zimmerman: Thank you, chair Gallo. Just a quick question. Going back to what we talked about, about if -- councilmember troxclair touched on this. I don't think anybody was proposing ending all the transfers at once, but if we were to do that and trigger a property tax rollback election, can you remember if and when the last time the voters had a chance to vote on a rollback election? Do you remember when that was?

>> I don't believe we've had a rollback election in Austin.

>> Zimmerman: I'm kind of liking the idea of having our citizens vote on the taxes. It kind of sounds like a good idea. But I would definitely suggest that we try to lower the transfers back in line with some of the other dividends, right, that the private companies that have risk, you know, 4 to 5%.

[11:53:41 AM]

I think we could certainly make a case for that and start moving in that direction. The other kind of strange thing is I keep hearing that we pitch it as a benefit that our monopoly energy customers have to pay more on their energy bills so that they might not pay more on their property tax bills. And I'm struggling to understand how it's a benefit. How is it a benefit for me to pay more on my electric bill so that I might not pay more on my property tax bill? Is there some tax benefit I don't understand? Property taxes, in some cases, can be deducted, in the case of rentals, you can deduct your property case bill. That would be an advantage. Can you explain where the benefit is? I see no benefit.

>> I think one of the disadvantages was part of the discussion that the council had last summer, in the equity of the appraisals of commercial property versus residential. And this would make that worse, if you had to do a transfer charge on the property tax rate, rather than a utility rate. And then there is also the point that the footprint of Austin energy service area is not the same as the city limits. And we do know that to some extent, those outside city customers are using city of Austin services. When they travel our roads and they have an accident, our police and fire units show up. They don't ask where you live when you have an accident in our city. And so it's been a longstanding policy of this city to have the transfer structured this way. I have general fund transfer studies going back to 1958, and they cover the same issues.

[11:55:42 AM]

The issue has not changed over time.

>> Zimmerman: Has the percentage changed since 1958? So if we're around 12% now, was it 12% back in the 1950s?

>> In the 1950s, the two utilities, Austin energy and Austin water were combined. They were not separated into two separate utilities until 1985. I was the city controller at that time, and it was not a fun exercise.

[Chuckling] But in the 1958 study, which I did review in preparation for this, the utility transferred 30% of its gross revenue to the general fund. We are now down to 12% of non-power supply for Austin energy, and 8.2% of gross revenue for water. So, again, over that time period, the general fund reliance on these transfers has been reduced.

>> Gallo: Are there any other questions, councilmembers? Okay. Thank you. Thank you very much. That was a great presentation. This is agenda number 5, which is discussion and possible action.

Councilmember troxclair, did you have . . . ?

>> Troxclair: Yeah, I think this would be the best time for me to offer my resolution. As I explained briefly the other day, I just want to have -- I think it would be good for the council to have -- in light of all the information that we've gotten, in light of the statistics that show that Austin is making a larger transfer from its utilities than other comparable cities, and the fact that we did talk about this last budget but didn't feel like we had all the information that we needed to make an informed decision at that time, this resolution is simply a request for information to help us understand and to help us have the financials to know what kind of impact a reduction to -- specifically to 4% or 6% of total revenues . . . What impact that would have on Austin energy and on our general fund.

[11:58:18 AM]

And I don't think that this is intended to be necessarily limited to this information. If there's other helpful -- if there's a number in between there that the staff wants to present, or if there's additional comparisons that they want to present, that's fine. But I do think I understand now, after sitting through the presentation that I just sat through, I think I understand the point that the mayor was trying to make the other day, which is that what I do not want is for a report to come back and say that this is going to cause a \$290 increase in our bill if we do it all at once, or that we're going to have to cut public safety in order to make this happen, or to make any kind of assumptions about what we ultimately do with the financial information. I just -- we can't even -- I cannot even begin, as a councilmember, to make an informed decision about the appropriate level of our transfers until I have this basic information.

>> Gallo: Are there -- so just to be clear, what we would be doing in talking and voting on this resolution would be to pass the resolution on to the council for a vote, just to make that clear that we're not actually voting on this resolution, but to vote to pass it on when someone makes a motion.

Councilmember Zimmerman?

>> Zimmerman: I had a point of order. I was wondering if the resolution had been moved for passage, the troxclair resolution. Is there a motion on the table yet?

>> Gallo: Once again, we would be moving to pass the resolution to the full council.

>> Zimmerman: Has it been moved yet?

>> Gallo: It has not.

>> Zimmerman: Can I move passage of the troxclair resolution for discussion?

>> Gallo: Yes.

>> Zimmerman: Thank you.

>> Troxclair: It doesn't matter.

>> Gallo: Councilmember troxclair, would y'all like to reverse that?

>> Troxclair: Sure, it doesn't matter.

>> Zimmerman: I just wanted to get it moved before we discuss it so we don't talk for 30 minutes and

then decide we don't want to do it.

[12:00:20 PM]

>> Gallo: Councilmember troxclair, do you have a preference on that?

>> Troxclair: Sure, I will move my resolution.

>> Zimmerman: And I'll second. Stay with the rules. Thanks.

>> Gallo: We have one last agenda item, which will probably take around 30 minutes. So the council meeting delayed -- start until after Austin energy completes. And so if you are trying to adjust your schedules accordingly, just to give everyone the idea of what's happening next. So, mayor pro tem tovo.

>> Tovo: That raises another question for me, because we do have citizens coming for citizens communications, and they are likely people have taken time off work and may not have the option of staying. I'd like to ask the chair and the mayor if it's an option to recess this meeting, go into our council meeting, allow the citizens to communicate -- because, again, they may -- having been on that side, I know I had 30 minutes to be here and that was it before I'd head back to work, so.

>> Gallo: We also have someone that has been here as an invited speaker for agenda item number 5 that thought this would happen earlier. So, once again, I'm going to go back to the discussion that we had, that if we are going to set a council on an Austin energy day, I would really appreciate setting the council meeting at a time that's late enough that we can finish this meeting and take a break and then start the council meeting, because we have a tendency in doing this to impose inconvenience on a lot of our public, so, thank you.

>> Houston: Madam chair, it would also help if we started on time, which it took us a long time to do today, because we didn't have a quorum.

>> Gallo: That is correct. I would suggest that we get finished with this agenda item, and then we can bring it up before the council if they wish to delay number 5. Once again, we do have an invited speaker that has been here all morning waiting for agenda item number 5 to come up. So, let's continue the conversation on this last part of agenda item number 4, and then the council can determine whether they want to recess and move for citizen communication,, then move back to our program.

[12:02:34 PM]

>> Tovo: I do have a question about this item. It's not clear to me -- I'm not clear on how we're going to proceed. Are we recessing for citizens communication, or we're going to try to end this item and consider that? Okay. Well, I think I have the same concern with this resolution that I do with the other. The language that concerns me is this. Directed to develop a report with options for reducing -- for both reducing and eliminating the general fund and economic development transfers from Austin energy. It's very similar to the language in the other. I think if we're asking for information about what the impact would be, that's one thing. But we are asking them to identify reductions and eliminations. And so that seems -- just in light of the comment you made yourself that you don't want a report coming back that is going to show that it could have a 219 or 291, I've forgotten which, impact on the average homeowner, I think we're -- I think the language would make me more comfortable, and it might better suit the intent if we're not directing them to develop a report with options for reducing and eliminating. I'm not comfortable. I mean, information is information, but it would seem to me that we're also signaling to the public that we have an interest in potentially doing that. At this point, I don't have an interest in doing either one of those things, so I guess that's a comment, and maybe a suggestion for an amendment, though I'd have to think a little bit about how to word it.

>> Troxclair: So would you prefer for it to say the report should include financial information regarding -- I mean, that's fine. I don't know how else to request information if I can't do it through a resolution that

requests information. And I have tried to be very clear that this is not making any -- you know, making any decisions past that going forward.

[12:04:46 PM]

And I can't form how I feel about this issue until I have this information. So whatever language would make you feel comfortable, I'm open to discussing.

>> Gallo: Mayor pro tem tovo, did you want to suggest some language, or would you like to think about that?

>> Yes, that's correct, we take budget questions all year long. These are more extensive. Some of them are just give me the number for this or the total expenses for that, but this would be -- yes. We can treat them that way, or we can treat them as a response to an item from council.

[Off mic]

[12:07:12 PM]

>> It would be appropriate -- I know that this has been -- I'm concerned about there being a vote -- that I would support -- transfers. Because I know it's been framed as a cut to spending would also be --
[audio stopped]

>> Mic's not on. Her mic's not on. Her mic's not on.

>> Yours not working either?

>> Would the other one work, perhaps? Would the other one work, perhaps?

>> Is this one working? Okay. I would suggest that after the staff has presented the city's financial forecast, for the next five years, which will be towards the end of April, that following that would be an appropriate time for us to come back with these studies, whether they are voted on today or questions or whatever. But you'll have more information about the financial picture for both the general fund as well as the utilities at that point, and would be in a better position as a council to provide us direction then.

[12:09:23 PM]

We certainly need some more time to look at the San Antonio model that we've heard several of you talk about. And there's still some questions on the data side as to how we can get to an apples to apples comparison there, that we are still in the progress of working on. So I might offer that as an option.

>> Gallo: Great. Did you have a question?

>> Casar: I respect councilmember troxclair bringing this forward, because I think it would be potentially a significant amount of work to have -- to direct the staff to develop the report and the options. And so I understand that. I think that what councilmember Garza brings up is the impact. The Numbers impact, I wonder if -- I just wonder from councilmember troxclair, is there Numbers that we still need? Because just taking 105 million and cutting that in half to 52 million just seems to me to say, how do we cut \$52 million from the budget, or reducing it to 4%, how do you cut it down from 105 million down to 35 million, how do you subtract \$70 million from the budget. And so I think we have -- and let me know if I'm missing something here. But if the question is, do we direct staff right now to spend some time figuring out how to cut either 52.5 million or \$70 million from the budget, that seems like a substantial task that would warrant a council resolution for them to work that hard on it. But are there other Numbers, other impacts we're looking for? If the mayor pro tem's suggestion is to have an amendment for us to get more information, it seems Ms. Hart presented adequate information on the transfer issues for a lot of this. There's still more we can learn, but as far as developing a report for options, it would be

asking the staff, how would you reduce the budget by 50 or 70 million, which is fine, but that seems to be what the resolution is asking staff to do, am I right?

[12:11:38 PM]

>> Troxclair: I think that you may be simplifying the issue. I guess that would be true, to cut it in half, if you were going to do it all in one year. It probably gets more complicated if you look at a potential option that not only looks at different levels, but also looks at those levels over a period of years. And I think if you compare this to the homestead exemption I understand this -- we learned our lesson last time about how that report was kind of reported on. That, oh, there's going to be drastic cuts to public safety if we do that. And that's the part of the conversation that I want to avoid. But you could've said the same -- made the same simple comment about the homestead exemption, can't you just calculate if we do 20% it's going to be this much. But it was a much more complicated and involved -- it required us to have some more complicated discussions about financial implications. And so, again, if it was -- if it truly is that simple, I would then ask the councilmembers who didn't want to address this during the budget last year, why not? Because I think that it is more complicated. I think it deserves a little bit of our attention. I think that there's somewhere in the middle between saying what's half of 105 million in one year, and doing a full report of -- and making the jump that we would actually make a decision of which route we would take going forward, and then how we would implement that.

>> Casar: No, and I think I understand your point. And I didn't mean to say that it's as simple as getting it done in one year. I think the question with the homestead exemption report was who was going to benefit, who wasn't going to benefit, how would it affect people in different brackets. I think there was some genuine interest in pursuing a homestead exemption quickly, and we wanted to know what the impacts would be not just for taxpayers, but on the budget at various levels.

[12:13:47 PM]

And this seems a little bit more just direct saying if we want to get to a 4% or 6% transfer over time, how would we do that, which seems to be a budget-cutting question. I know a lot of other people are waiting to talk. And I ask those questions truly not just rhetorically.

>> Troxclair: I understand. And I think that it would -- any cut of this amount of money or decision about this amount of money will have an impact to property taxpayers or rate payers or something. Everything we had to discuss with the homestead exemption applies to this. I want to know how this would impact rates, would it result in lower rates, what would that amount be? But I can't get there right now.

>> Gallo: Okay, we have councilmember pool, then kitchen, and I think I saw mayor pro tem tovo's hand up, so.

>> Pool: Thank you, chair, I was going to make some of the same points that councilmember Casar made about the easy math on it. I understand that it isn't actually as easy as that, that it does get a little bit more complex when you want to break it down into rates and everything. But I wanted to ask our financial officer Ms. Hart, is the question of getting that information -- has that been sufficiently communicated to you that we don't, in fact, need a resolution? And the reason why I ask that is when we put something in a resolution as an item from council and we vote on it, it does have a higher level of import. There is a larger message that is conveyed by doing it as an item from council. I am all for asking for that information, but I'm not interested in signaling to our community that this is something that's a potential. I would very carefully review any sort of reduction in the transfer at the level of a 50% cut, for example.

[12:15:50 PM]

Because while I think we would have a reduction in the rates, which is significant as far as affordability, we would then be required to find ways to make that up in other taxing mechanisms, because the system that we have with our programs in this community and the dependence that our programs have on the budget would -- we would have to make really draconian cuts everywhere else throughout. And that's not something that I want to enter into blithely, I guess. So do you need a resolution in order to get the information that is being requested, or is there sufficient direction in a q&a?

>> It would be easier -- it would be better for us to have the resolution because then we have clear direction of exactly what we want, and we have the support of the whole council to have that study done. Yeah. I think that would be the preferable way so that we have something. I don't think it's something we can have ready by next week. I do think that to do the full impact we'd need to wait until after we've done the forecast. So the public utilities resolution, by may 31st. And I think that's do-able.

>> Mmhmm.

>> And that's a resolution that's on this week's agenda for the water side.

>> Pool: And then we have a resolution -- this one is on the electricity side. But back to what some of the other councilmembers here said, knowing that we are looking for that information and knowing that we're coming up to budget, is that an effort that you would undertake anyway?

>> Only if asked. Only if asked to do it. We don't -- these are longstanding transfer policies that are looked at very closely by the rating agencies.

[12:17:50 PM]

And so we try not to tinker with them too much, and we certainly would not want a policy that's going to change every year. You know, that outcome would not be viewed favorably at all by the rating agencies of either the general government bonds or the utilities. And we have water with a negative right now that we've been working on financial improvements, and they've made significant improvements, but, you know, we like stable transfer policies and changes for specific policy reasons, which obviously affordability is a good policy goal.

>> Pool: Right. Okay. Is my -- okay. Thank you for that. And that gets to my concern about how this is viewed in the community and elsewhere, particularly with the bond rating agencies. We just need to be really, really mindful of what it is that we're entering into and how we are messaging these requests. Thanks.

>> Gallo: Councilmember kitchen.

>> Kitchen: I actually would echo the comments that everybody has made. I think that this is important information to have. Direction to staff and asking for it before now, you know, because the budget process is almost upon us. I think it's very much akin to the kinds of information-gathering we did with regard to the homestead exemption. And, you know, fortunately for us this past year on the homestead exemption, the kinds of things that we were concerned about did not pan out. We did not have to cut the budget. And we were able to go forward. So at the same time, I do not want to send the message or have anyone be afraid or concerned that we are even thinking about cutting -- you know, cutting programs.

[12:19:57 PM]

So I'm very sensitive to this language. And so I would -- I have some suggested language. I know that maybe mayor pro tem, also. So I would just like to read out my suggested language if that's okay, because I want to avoid any implications that we're making any decisions or that we're even interested in anything that would result in a cut to our programs. So, if it's appropriate, I can read out the

suggested language? Okay. I would just take the first two paragraphs and collapse them into, "The city manager is directed to develop a report which contains information about the financial implication on the general fund and our utility rates for reducing the transfer at 1% increments over a period of time, or for other changes to the transfer policy."

>> Gallo: Would you like to read that one more time, please?

>> Kitchen: I'm sorry. That was a big -- okay. It's a big change. I can write it down, we can put it up if that would be more helpful. Okay. Give me a minute to do that.

>> Gallo: While she is doing that, does anyone else have any comments? Mayor pro tem tovo.

>> Tovo: I appreciate that changed language. I started to look at that language and then I realized a few other things that are giving me pause. I want to say I agree, councilmember troxclair, I think that when we do have questions, I agree with both perspectives. This is an appropriate budget question, I believe. But I also think if we're not sure of whether or not it makes sense, and it is going to require a lot of work, I think it's completely appropriate to bring a resolution. I think it's completely appropriate to bring this one. In looking more closely at some of the whereases, though, I would have to see those eliminated to support this. And let me just read the ones that give me pause. Whereas in an article, Larry Weis noted it is well-known the amount the utility pays for shared services is inappropriate.

[12:22:06 PM]

That's not a position I support. I don't agree with it. I don't think it's accurate. I would need to see that gone out of the resolution. Whereas -- and this is lower -- determining utility rates that include transfers to the general fund and economic development department compromises transparency in the cost of government and the service it provides, I guess I can't agree with that statement, either, and I would need to see that eliminated to support this. I have questions about the comment that low-income residents use more energy per square foot than high-income residents. I'm not sure that that's an accurate statement. It sure is accurate, I would think, that low-income residents pay a higher percentage of their income to utility bills. But I don't think that we can generalize about whether low-income residents who are very diverse -- some may live in very energy-efficient apartments, some may not -- I don't think we can make a statement that they use more energy per square foot than high-income residents, but I would look to staff for that. Then there's a discussion about the median transfer. As I read the data that Ms. Hart provided, it may be true that the median transfer is 4%. However, as I read the information, the median transfer for power systems that are in 100 plus million in revenue is higher. Ms. Hart, do you know which -- what the median transfer rate is for public power systems that fall into where Austin -- do you know what our -- what would be a comparable median transfer?

>> It shows the 34 public power systems that responded to the survey with revenues -- that have revenues over a hundred million, that the median was 6.4%.

[12:24:10 PM]

And in the west south central region, which we're in, 6.5% is the median.

>> Tovo: So, again, I think it may be true that municipally owned utilities generally are in the 4% category, but the ones that are comparable with ae are in 6.4. So, I think at this point, rather than -- I could make those all as amendments, or I can simply vote against. And I think if there's a majority will to have those sorts of assertions and value statements on record, then I'll just -- I think the best option for me is just to vote against it. But for the reasons I just stated, those passages, I don't believe, are points I can support. So I'll just vote against it.

>> Gallo: So why don't we go back to councilmember kitchen with her language, and then perhaps you and Ellen can talk about if removing any of those makes y'all comfortable. But let's go back to kitchen's

amendment.

>> Kitchen: Well, I would have the same concerns about the items that mayor pro tem raised, so maybe it would be better to answer that first.

>> Gallo: Okay. So would you, councilmember troxclair, would you like to address the whereas items that mayor pro tem tovo brought up?

>> Troxclair: Sure. Of course what is ultimately important to me is getting the information. So we can argue about the whereas clauses, or I mean -- the whereas clauses don't have any impact on the -- what we're asking the city staff to do. So I'm fine with removing some of them if it makes other councilmembers feel more comfortable, but I do want to just say -- and I will see where that -- I mean, I will see where the one statistic that you mentioned about energy per square foot, where that particular statement came from.

[12:26:12 PM]

But none of the assertions in these whereas clauses -- I don't want to give the impression that we're taking them out because they're inaccurate. I included the statement or the whereas clause that the general manager of Austin energy noted that "It is well-known that the amount the utility pays for shared services is inappropriate," because I think that that's an important statement that should lead the council to have an interest in taking a look at the level of transfers. The statement that other municipally owned utilities, that their median transfer is 4%, is true. And I guess I will say, of course, it is my personal belief, yeah, that having a level of transfer that is potentially inappropriate does compromise transparency. But I understand that that's a subjective comment. And, again, I'm fine -- it's not important -- the political statement that those whereas clauses might imply are not as important to me as being able to have the basic financial information, so that I'm prepared going into our budget cycle. So if it makes you feel more comfortable to strike everything that you have mentioned, I'm fine with that.

>> Gallo: So, mayor pro tem tovo, would you go through just to move the conversation --

>> Tovo: I'll do them as separate amendments. I thought given the time and the fact that we have citizens waiting for citizens communications, it might be fastest to vote against it. I completely respect, councilmember troxclair, this is your resolution, and these are value statements you support. So I just disagree with them. But it's --

>> Gallo: Mayor pro tem tovo --

>> Tovo: I'll do them individually if there's other interest in them.

>> Gallo: My suggestion, in the essence of time, you have a group, if you could number them one through 12 and mark the ones --

[12:28:17 PM]

>> Tovo: I don't have 12.

>> Gallo: There's 12 whereases, just so we're specific.

>> Houston: Chair, could I have a point of personal privilege, please? We are way past our 12:00 certain. If we had time, maybe people could talk about it and come back with something that everybody could agree on. This may be a good time for us to take a break from Austin energy, have people talk about what they can and cannot live with, so people -- they've been here for 30 minutes waiting for a time certain 12:00.

[Applause]

>> Gallo: I think that is a suggestion, councilmember troxclair, would you be okay with us taking a recess from Austin energy?

>> Zimmerman: I was going to say, if that was a motion, I'll second it.

>> Houston: So moved.

>> Troxclair: My preference would be I don't think that it would take very long. If her changes are amenable to me, she doesn't need to do them in separate amendments. She can just list off the whereas clauses she's striking and we can move forward. My preference would be that we take the time to finish our Austin energy meeting. I understand there was a time certain of 12:00 P.M., but we have time certain on things all the time and don't get to them until we finish the business before us.

>> Gallo: I think we also have councilmember kitchen's amendment for the language. So, my suggestion would be that I'm going to reluctantly recess from Austin energy. We have got, I think, ten speakers at three minutes apiece, which is going to be 30 to 45 minutes. I would say once again, this is really unfair to Austin energy to keep putting us in in position. And if we have to move this meeting from Thursdays to another day, because we seem to continue to get duplicate scheduled -- I mean, I think these are really important issues. We have a community that's really important to. It's important to us to have the time to discuss things and do these briefings. So I would accept a motion to recess and just allow the citizens communication to take place as part of the council meeting, and then.

[12:30:19 PM]

>> Before we break for lunch we will come back and finish Austin energy.

>> Moved and seconded.

>> Moved seconded. All in favor? Any opposed? I think it was unanimous but I'm not sure about some of the hands over there.

>> (Indiscernible).

[1:00 PM]

>> Okay, Austin energy committee meeting is back out of recess. We're back. And I think mayor pro tem tovo and council member kitchen were going to work with council member troxclair to present some amendments to the resolution. Once again, the resolution is not being passed by this committee but is -- the vote will be to forward it to council. Mayor pro tem tovo?

>> Tovo: So I'll make this -- I think it would be appropriate to make these individually or something like that. I certainly appreciate council member troxclair again for bringing forward a resolution that has statements in it she supports and believes are relevant, and my approach is a little different, so we can just -- I'll just make them as amendments and we can vote them up or down. So really I tried to just get to the crux of the matter and keep it to the fact that I felt -- facts that I felt were relevant to the subject. So I would propose eliminating for starters -- oh, I apologize, council member Gallo, chair Gallo, you asked me to number it and I did on my first version and then forgot on this one. So let me just say that I would propose as a first start -- as a first amendment eliminating the third whereas and a portion of the fourth and combining -- well, that's my amendment. And then -- oh, thank you very much, council member pool.

[1:02:58 PM]

So my first amendment is to eliminate the third whereas and a portion of the fourth and then combine the second and the fourth with the remaining language. That's motion no. 1.

(Indiscernible) Focused on the revenue is this, we're going to transfer this much.

>> Gallo: Is there a second to that motion? Council member kitchen second? Motion made and seconded. Is there any discussion? Council member troxclair?

>> Troxclair: So I mean, I don't know that we need to go through this -- you know, the 12 different whereas clauses. I'm fine with just -- like I said, I think the important part is being able to receive the information, and so if -- if it means I can get your support to do that by striking these whereas clauses, they're not -- I am not particularly attached to them, but they are -- all of them except for, let's see, 11 and 12, are just simply facts that we pulled from the Austin energy budget or from the American public power association report. So I don't know that they -- they were intended to provide context, but they are not critical to the end goal of being able to have a better grasp of -- of the financial implications. So I'm fine with you just making the substitution.

>> Tovo: Are you sure?

>> Troxclair: Unless the rest of the council wants to go through each ever these.

>> Tovo: That's very -- I appreciate that.

>> Gallo: Would it be simpler to say what's left versus --

>> Tovo: Sure. So what would be left is 1, 2, half of 4, and then we would move down to the second page, which is the be it resolved clause, and that's really council member kitchen's, I believe.

[1:04:59 PM]

I think the only thing I had on the second page is council member kitchen's language, and then pick up "The report shall be presented." So that would be my motion.

>> Gallo: So your motion would be to leave 1 and 2 and then would you like to read what 4 then becomes? Because you said it's just half of 4.

>> Tovo: Yeah. The -- so actually 2 would become whereas Austin energy total projected revenue for fiscal year a 2015 --

>> (Indiscernible).

>> Tovo: I read exactly what was there, 2015 to 2016, so that should be adverted, is \$1,404,011,591. I feel like that's a -- anyway.

-- A math problem. In fiscal year -- okay. So there's that. And in fiscal year 2015-16 Austin energy will transfer 114, et cetera.

>> Gallo: So what you were striking from 4 after the whereas -- what you would be striking is included in those nonfuel revenue requirements? Is that correct? That's what I'm seeing. So 2 -- and goes up and picks up the part of 4 that starts in fiscal.

>> Tovo: That's right.

>> Gallo: Does that make sense to everyone?

>> Tovo: I'm going to avoid spelling out the Numbers.

>> Gallo: There was a motion and second for that. All in favor --

>> Troxclair: I don't know that we need to take a vote if it's acceptable -- I'm the original maker of the motion and it's acceptable to me so I don't know that a vote is necessary.

>> Gallo: Wonderful. Ms. Kitchen, do you want to talk about the second component?

>> Kitchen: I gave my language to council member troxclair. She's going to.... I hope everybody can read that.

[1:07:18 PM]

Do you want me to read it out?

>> Read it for us.

>> Gallo: I think so.

>> Kitchen: The city manager is directed to develop a report which contains information about financial implications on the general fund and utility --

>> Rates.
>> Kitchen: Utility rates and fees at 1% increments over a period of time or for other changes to the transfer policy.
>> Gallo: And that would take the place of the first two paragraphs and the third paragraph which says the report shall be presented to the Austin city council no later than may 31, 2016, would still remain. Is that right?
>> Yes.
>> Gallo: Does everyone else? Council member troxclair, are you all right with that?
>> Troxclair: Yes.
>> Gallo: So we are now back to the motion, which I believe council member Zimmerman -- no, council member troxclair made with a sekd from council member Zimmerman. All in favor of the motion?
>> I have a --
>> Gallo: I'm sorry, is there discussion?
>> Original motion as amended?
>> Yes.
>> So that's the only be it resolved? Is that my understanding?
>> Yes.
>> All the other ones are taken out?
>> And for the report to come back.
>> Gallo: And for the report to come back --
>> No later than may.
>> The third paragraph.
>> Just this last one.
>> Can we have the language put up one more?
-- For one more moment? I was trying to finish reading the --
>> The second page with the kitchen amendment language, please.
>> On the overhead?
>> The second page with the kitchen amendment language on the overhead.
>> That one that's on right now, just putting it right back up for a second, please. So you mean that 1% increment at reductions of 1% increments, right?
>> Yeah.
>> Casar: Am I reading this correctly?

[1:09:19 PM]

So I'm amenable to it, just to make it clear that it's at 1% increments in the downward direction -- or did I just miss that on here?

>> No, it's implied but not stated. So at 1% reduction increments, I suppose you could say.
>> Casar: Something like that.
>> Gallo: I have one other question, on the original one it was economic development. Economic development has been removed. Are we intending for that to stay in there also, I would assume?
>> Kitchen: I'm okay, yes, for that statement.
>> Gallo: Okay. So after third line, at the end on the general fund and economic development and utility rates and fees. So that will be added to that. Any other discussion? Council member Renteria --
>> Renteria: I just want to go on record that I believe this is like really jumping the gun here, so I'm going to abstain from taking any kind of action on this.
>> Gallo: Council member pool and then council member Garza.
>> I wanted to ask, council member troxclair, you were also looking for something similar to this with

the water utility. Would it be a good idea to go ahead and --

>> That is not posted for Austin energy. Once again, this is a resolution we're voting on to forward to the council.

>> Pool: Right. Right. So the changes that we're making here on this one, they would be similar changes that we would make when we get to it on the --

>> Gallo: Once again, we're not posted to discuss Austin energy, other resolutions here.

>> Pool: I'm asking just for a point of information from --

>> We can certainly talk about that during the council meeting.

>> Pool: Thank you.

>> Gallo: Council member Garza?

>> Garza: I just want to -- I appreciate the intent. Especially I appreciate council member Garza being open to the changes being made, but I too am going to abstain.

[1:11:25 PM]

Comparisons have been made to how this is what we do with the homestead exemption and I'll point out I didn't support the homestead exemption because I believe it's regressive. So I'm going to abstain on this.

>> Gallo: Council member troxclair?

>> Troxclair: I want to remind you that you actually did support the request for information that we started asking for the financial implications of the homestead exemption. You did vote for that.

>> Gallo: Okay. Is there any other discussion? No? Okay. All in favor of the motion, please raise your hand. Any opposed? Any abstentions? We have Renteria and Garza abstaining. We have Zimmerman off the dais. Anyone else off the dais? Houston off the dais. Okay. The motion passes. Thank you. All right. Our last agenda item is no. 4. It is a briefing and invited guest presentation regarding eligibility criteria for Austin energy's customer assistance program. We have a staff presentation, and we also have an invited guest, Mr. Robbins. I appreciate and apologize to both of you that you have ended up on this meeting so late in the day, but thank you for your patience.

>> No problem. Good afternoon. Jj Gutierrez, vice president of customer care services at Austin energy. And I have a brief -- brief presentation for you today, just providing some updates around the customer assistance discount program and the changes and updates that we've made in the past six to nine months. Let me begin by speaking or providing some background about our automatic enrollment program. That program was initiated in 2012 with the addition of seven additional eligibility criteria for the discount program.

[1:13:25 PM]

At the time we created a new criteria that would allow that anyone who received these, one of any of these seven benefits, would also be automatically qualified for the cap program. Once qualified, the household is enrolled in the program for 12 months and at the end of those 12 months the household is reviewed again for eligibility. This slide just provides an overview of the fy -- fiscal year '15 cap discount, customer assistance discount fees that were waived for customers, and total cost of the program. You'll see that the discount customers received several benefits, including drainage fee waivers, waiver of the Austin energy community benefit charge, all the way down to waiver of the wastewater and water tiered fixed discount. So if you just look at the bottom of the slide, there's an electric portion, savings for the customers of an average \$21.41. There is a water savings of \$31.96, and this is a sample customer, which totals about \$58 per bill per month for a customer with average consumption. So that is substantial for our low income customers. So let me roll into the four changes that we've made. At the

request of city council, we completed four, and I am pleased to present that we have completed these four changes to the program. We've refined the data match and screening algorithm. We've added screening for customers with large home improvement value.

[1:15:30 PM]

We've eliminated the wait list, and we've added veterans' assistance supportive housing to the eligibility criteria. And I'll speak about each of these in a little bit of detail, and of course entertain questions if you have them. Let me begin by the first process that we worked on, and that is our screening algorithm, and so this is a computer system that does the screening for us and the matching. And what we've done is improved that algorithm to -- to better match data fields between our lists and the list of customers who receive these benefits. In the past we require a partial match and now we require an exact match on name and address. In doing that it actually -- it took about 90 days to revise that algorithm and implement those changes in the system, test them, make sure they were working properly. This change was implemented on December 1, 2015, and let me provide to you some of the results of that tighter match. In December, the first month that we implemented, we had 4,000 customers that screened out, which means they no longer were matches using this tighter algorithm. Those 4,000 customers received letters saying, you have been screened out via a match process, but you are allowed to continue on receiving discounts. Just contact us and provide us the appropriate information. 600 did -- 600 did provide the appropriate information and remained in the program, allowed to continue discounts, and 3400 were removed due to they were no longer -- or not eligible for the program.

>> Kitchen: I have a -- just a quick question.

[1:17:31 PM]

So when you're matching the two data fields, that's not a change in criteria, right?

>> That is not.

>> Kitchen: It's -- is it purposes of making sure that you're looking at the right person?

>> Absolutely. That is correct.

>> Kitchen: Okay.

>> We may have same last name and Sheryl may be the first name and Sharee might be what's on the other data field. In the past that was a match, but in real life those are two different people. Okay. So that's -- that's improvement 1. Improvement 2 has to do with adding a criteria -- a screening criteria for home improvement value. So we were able to utilize Texas county appraisal district data, tcad data, to assess whether the cap discount customers' home improvement value was greater than \$250,000. Home improvement value, not property value and not total home value, but home improvement value. That change in screening process required roughly six months to implement -- to program and implement, and in those six months we actually piloted these changes, and we've actually brought this information to you in October and November. The true program began December 23. We formally now screen for home improvement value greater than -- I'm sorry, less than \$250,000. So what the screening does is before an automatic enrollment is performed, we identify all the households that have come through the list that have high improvement values. Once we identify those households, those are pulled out of the automatic enrollment process. The homes less than that, they continue forward on automatic enrollment. The homes greater than that will receive letters. And so you'll see in our results chart here, just looking at January there were 38,000 -- 38,000 customers enrolled in the program.

[1:19:43 PM]

Screening, 63 homes in January that were -- had improvement values greater than 250,000. Those 63 homes were sent letters. We had no responses from any of those homes, so those homes were removed from the program.

>> Kitchen: Just quickly, can you just give us examples of what will trigger a high home improvement value?

>> Good question, so I'm not a tcad expert.

>> Kitchen: Okay.

>> But I'm assuming it is home improvements made adding a shed or adding a structure, adding -- again, I'm not an expert, so I can only imagine that it's some large-dollar improvement made to the home.

>> Kitchen: But that's based on -- specifically on home improvements made in one -- a previous year.

>> A previous year.

>> Gallo: Okay, or it could be when you look at your values that the appraisal district gives you, your value on your property is broken into the lot and the improvements. My guess is, and I may be wrong -- but my guess is that when they talk about improvement value it's actually the physical structure that's on the property. And so -- but I'm just guessing that it's not actually a room that's been added or --

>> Kitchen: Yeah, because they wouldn't really know that.

>> Gallo: So that's my GE. And that -- what I would -- my guess. What I would like to ask then is why was the decision made to base that on just the improvement value versus the total value? Because the 250 is close to the median price home in Austin that includes the lot value. So why was the decision made to eliminate the lot value and just base it on home improvement value?

>> The decision was really based upon, one, discussion that we've had at the dais where property value may truly exceed the value of the home, you know -- by multiple factors, but the structure itself may be older and worth less, and the occupants may also only be able to afford the structure where they live because they've been there a while and the value of the property has increased.

[1:22:12 PM]

So we decided and we proposed that the home improvement value is a better measurement of the occupant's ability to pay or to live in a structure -- better assessment of that occupant than the property. And many times the property value -- the properties may not be owned by the person living at the premise. It may be owned by an investor or a real estate owner that doesn't live in the home. So again, we're trying to assess in a very difficult way the occupant's ability to -- to live in a home as opposed to the property owner or if they're renters, the investment on it.

>> Gallo: Okay. Thank you. Any other questions at this point? Okay.

>> The third --

>> Gallo: Sorry, council member Houston.

>> Houston: I'm sorry. So on page 6, those 63 will be removed?

>> They were removed.

>> Houston: Okay. It says removed, zero, so that's why I was just --

>> Let's see here. That's a mistake on my slide. The 63 were removed. When there's no response they are removed. The ones that were enrolled, in the enrolled column row, is correct. You'll see in December '12

(indiscernible) Respond and were enrolled and in December, no response. Again, that nine, I need to go check. The ones that did not respond were removed.

>> Casar: Sorry, can I get a little clarity?

>> Yes.

>> Casar: So the letters -- the letters sent, are those sometimes to repeat individuals or it's to a new set of people?

[1:24:13 PM]

>> So each month they -- there are repeats -- they are repeats. So each month that the property value exceeds, they run through the screening, the same home may be contacted repeated times, yes.

>> Casar: And so the total number of people -- or of households, excuse me. The total number of households that qualified for the cap discounts but had a home improvement value of more than 250,000, what was that number? Just over 100 -- just over 120, it looks like.

>> Yeah, I don't have that number for you. I can get that because, you're right, there's duplication from month to month, so you can't simply add -- that 115 may include 85 from before. So you could assume that in total 115 may have exceeded \$250,000 in home value.

>> Casar: But removed wouldn't be duplicates. And so you removed five and then 8 and then 9 and then 63?

>> I have to check that.

>> Casar: Unless somebody got reenrolled and --

>> I have to check that fact.

>> Casar: That would be helpful. I think what would be helpful is to know how many -- how many folks got identified by this potential screening and then of those identified, how many of them were removed versus how many of them you actually found out that it is a low-income person that's living there.

>> I will get that information for you.

>> Casar: Thank you. I appreciate it.

>> Okay. On slide 7, the third change made to the program is the removal of the enrollment wait list. In the past we had thresholds on the number of customers that could be enrolled in the program based on their benefit type. We've removed that maximum enrollment amount for all the benefit types and allowed the enrollment to rise to -- to anyone that's screened as eligible.

[1:26:24 PM]

Just as a result, it took about 30 days to implement this change. Change was implemented February 1, and in February there were 1,537 customers that were enrolled in the program that were previously on the wait list. So we see that as a success. The only note that we have here is we are carefully watching the enrollment levels to ensure that the addition of all wait-listed customers don't -- doesn't negatively impact and increase our spending beyond our available cbc funds. The last change I'd like to talk about is the implementation or the inclusion of our veterans assistance supportive housing. We call that vash, eligibility to our affordable program. This change required about 90 days to implement, and this is the one that is -- a little bit of it is still happening. We were able to implement this change, and on February 2 allow veterans with the vash designation to self-enroll. And so we spent time training our caseworkers at the veterans assistance facility and allowed those caseworkers to notify anyone coming through their offices that they are eligible. If they're eligible, they can self-enroll for the customer discount. We're still working on the automated process here, so we plan on March 4 to be able to automatically enroll these customers as they meet this new criteria. We know that there's a total of 400 vash vouchers in our community, and we also realize that if our veterans receive vash but they live in an all bills paid or they don't currently have an account with us, then they won't receive this discount.

[1:28:36 PM]

I just wanted to briefly talk about next steps and things that you'll see at this meeting or at a council meeting coming in the future. The first thing we'll talk about is the community benefit discount forecast.

So we've been able to enroll at pretty high levels since 2013-2014 because in the first implementation we had a care-over. We did not spend all of our funding. So we were able to raise our levels of enrollment every year since then to try and spend up that accumulated carryover. Well, that carryover will run out at the end of 2017, and in 2018 we are forecasting or projecting a deficit in the amount of funds available to support the current enrollment level.

>> Gallo: Mayor pro tem?

>> Tovo: Do you anticipate incorporating that information into the rate proposal?

>> I do not know that for sure. I will definitely -- this information has been provided to our rates team, and so they are aware of this information. I'm not sure how it would be interjected into the rate review.

>> Tovo: Because we could -- I mean, that is one thing, that the rates could be designed to accommodate that same number on the wait list.

>> Could be.

>> Tovo: In our proposal that we're contemplating right now. Thank you for that information.

>> Mm-hmm. And the other thing that you'll see coming forward is a new contract, request for purchase authority for a new contract to support the automatic enrollment process, and currently we have a vendor that performs that, and we'd like to revise the scope and create a new contract around this new increased scope.

[1:30:45 PM]

>> Gallo: Council member troxclair?

>> Troxclair: So if we were going to accommodate the same number -- or accommodate the increased number of people that you all have been able to enroll into the program since 2014 because of that -- because of the carryover, would the deficit continue to increase in the same manner that it decreased? So, for example, in 2018 is it 2 1/2 million but in 2019 it will be 4 1/2 million and in 20 -- 6 1/2 million?

>> Yes, so you will accumulate this deficit each year that you operate at a higher level. So it just accumulates. So the 2.2 will be there in the year 2018. You'll still be in a deficit going into 2019, and then in 2019 you'll accumulate an additional 2 1/2 million dollars. And so yes, it will accumulate each year.

>> Troxclair: Okay. Thanks.

>> Gallo: Council member Houston.

>> Houston: Thank you, chair. I may have missed this. Are we doing income verification on the people that are enrolling self- -- self-enrolling in the program?

>> We're not doing income verification, but we are requiring that they provide proof that they receive any of those seven or eight benefits that are -- that have been listed as criteria for eligibility. So they have to show proof that they are currently receiving any of those benefits.

>> Houston: Could you just run quickly through the seven or eight benefits, other than the vash that you just told us about?

>> Yes, I can. And as a matter of fact, vash wasn't one of those originals, so now it's been added. So if they show proof of vash they are eligible. If they show proof of receiving medicaid assistance from comprehensive energy assistance program, we call that cap. If they receive cap.

[1:32:48 PM]

If they receive Travis county medical assistance program, and so forth, that they receive SSI. Snap, chip or telephone lifeline. All of those things are what makes a customer eligible.

>> Houston: Okay. Thank you.

>> And so we do not income verify.

>> Houston: Okay. So I could be eligible if I -- if I have a medicaid? If I'm eligible for medicaid, right?

>> You are correct.

>> Houston: Okay. Thanks.

>> Gallo: Any other questions, council members?

>> That is all I have for you.

>> Gallo: All right. I have one question. I'm just trying to figure out the financial benefit from the process that you went through, thank you, to get people removed from the program, and it looks like that if I look at the slide that shows the benefit, which looks like it's just a tad over \$58, \$58.18, and assuming that the customer is on all the city services, and I multiply that times the 3,463 that were removed, it looks like it was over \$200,000.

>> That is correct.

>> Gallo: So I appreciate the work towards this. I think as we talk about being fiscally conservative and how we do things and how to make our funds go further and really impact the part of the community that needs the help, I just -- I really appreciate the fact that you all have done this, and I hope that you will continue to figure out a process that will allow this to stay in place. So thank you.

>> Thank you.

>> I have a quick question.

>> Gallo: Council member Garza?

>> Garza: Just a clarification on -- it's medicaid but not medicare; is that correct?

>> That is correct.

>> Garza: Okay.

>> Yes, that is correct.

>> Gallo: Okay, any other questions? Thank you. Thank you very much. We have an invited speaker, Mr. Robbins, thank you for being so very patient now that you are coming before us at 1:30.

[1:34:50 PM]

>> Thank you for having me. I started writing this speech saying good morning, council.

[Laughter] For the record, my name is Paul Robbins. I've been an advocate on behalf of residential consumers since the 1970s. I'm here today as a volunteer. I appreciate the chance to speak on the subject of problems with Austin energy's customer assistance program, or cap, as it has become known, and to allay some concerns I've timed this speech for 15 minutes. Cap began in 1985 as a rate break for electric and drainage utilities for low income customers. It expanded to the water utility in 2009. Cap greatly expanded participation after the electric rate case in 2012, and now serves about 41,000 customers for electricity. Currently about \$16 million in discounts is given to customers each year. If a customer is enrolled in all three utilities, the average discount can be about \$700 a year, though this amount will increase with higher consumption of electricity and water. A few months before the first single-member district election in 2014 I began to investigate rumors that some of the money from Austin's customer assistant program was being misspent. I uncovered several -- I have uncovered several problems that probably add up to several million dollars of low income assistance money being spent to help the wrong people or spent for the wrong reasons.

[1:37:03 PM]

First -- hmmm. The problems that I discovered include cap paying discounts to middle and upper income people. Second, cap is paying discounts for high consumption. Third, in the long run the funding for current participants is unsustainable, as jj pointed out a few minutes ago, and fourth, in a few cases Austin is giving discounts to the same customer two or three times. In my -- when I began looking at the problems, I set out to analyze this by cross-referencing the cap participant list with publicly appraisable

property -- publicly available property values from Travis county and wilco appraisal districts. The participants that I had were only from the water and drainage utilities, Austin energy participants were not available because they are governed under a different set of privacy laws. The number of Austin energy participants is more than double that of the other two utilities, so I believe my results greatly understated the problem. Still, in 2014 I found 1,131 homes with assets of over \$300,000. 66 of the participants had assets of over \$1 million. Almost 300 had assets of over half a million dollars. 337 lived in home over 3,000 square feet in size. 160 owned more than one property. Eight customers received -- received the discount two or three times. I alerted Austin energy to the problem in September of 2014. Staff there had predicted such problems would occur before they were discovered.

[1:39:07 PM]

However, staff does not have the discretion to remove wealthy participants from the rolls because they were instructed to serve all customers that were automatically enrolled. I updated my research from a participant list of December 2015. I focused on west lake hills, 78746 zip code, to see how extensive the problem still is, and unfortunately the problem is still apparent. Now, this lucky person gets cap, and they live in a home appraised at \$4 million. The lakeside 8100-square-foot mansion has its own indoor movie theater and elevator. The customer apparently owns 17 other properties -- owns or co-owns 17 other properties, including a steel mill and a medical office building, with a total appraised value of another \$6 million. Since this owner lives outside the city they get a reduced rate in addition to the cap discount. The cap discount itself is 10% no matter how much volume is used, and on average the base fee and cap fee waivers save another 3%, so this customer gets almost a 20% reduction on their bill. Now, this is an interesting case. This cap participant was on the front page of the Austin statesman on December 1, 2014. His 6300-square-foot mansion sits at the edge of wild basin preserve. He is a luxury home building that owns or co-owns \$2.3 million in other property value.

[1:41:11 PM]

15 months ago he told the paper he had no idea he was enrolled in cap. After being on the front page, however, I had hoped he would have removed himself from the program. Apparently not. Nor did the family member who lives next door in a 4700-square-foot mansion. Now, this cap participant resides in a beautiful 5400-square-foot home on three acres appraised at 1.6 million. However, this is -- this home is currently for sale at almost twice this amount. And this cap participant lives in a relatively modest home appraised at a little over half a million dollars. However, the owner has 11 other properties in his name. The total appraised value of all this property is 4.6 million. Overall, the most recent analysis found 60 cap participants in Westlake, 13 had assets of over \$1 million, 46 had assets over -- of over half a million dollars. 27 of the homes were over 3,000 square feet in size. 21 of them received out of city rate breaks. However, only four appeared to be rental units where assistance was understandable to me. Oh, and these homes at the bottom are two of the other mansions in Westlake on the cap rolls. Now, the problem largely originates with the overly broad auto enrollment program. Austin energy is the outlier compared with other utility discount programs I reviewed. This chart shows the top ten public utilities in the country compared to Austin. It includes -- it also includes the light up Texas program that's being conducted in the deregulated areas of Texas.

[1:43:17 PM]

Most utilities income qualify their participants. Salt river project in Arizona has a simple phone enforcement, but about 15% of the participants are audited for income guidelines each year. Ercot in

Long Island, you all understand ERCOT. It's the independent systems operator for the state of Texas. ERCOT in Long Island will auto enroll a participant if their name -- if they are on certain social programs and their name is simultaneously on the bill. ERCOT also has an option to income qualify if a participant is not auto-enrolled. About 15% of ERCOT participants use this option. Austin, however, has the loosest screen of any utility listed here. It will enroll people if anyone in the household is listed in social service programs, regardless of the household's real need, and it is obviously not working that well. Now, last may Austin energy committed to sending an opt-out letter to customers in homes with more than \$250,000 in improvement values, and this only began in October, but I'm glad they've implemented it. Still, some of the people have obviously chosen to leave the program. But what about this person? They own a home with much less than \$250,000 in improvement values, but the home is worth close to half a million dollars and they own or co-own \$11 million in assets in Travis and Williamson counties. They're never going to get the opt-out letter.

[1:45:17 PM]

And what about the participant like the mansion owner near Wild Basin that was on the front page, but they continued to take the subsidy. There's got to be a better way. And now here is another problem. Austin energy will give a 10% rate discount no matter how much electricity a participant uses. About \$2.2 million a year is spent giving discounts to people in the fourth and fifth tiers of electric use. By doing this the program is incentivizing waste. Austin's conservation-based tiers are being skewed by this subsidy. Consider the average monthly consumption in Austin is about 915-kilowatt hours a month. The average summer consumption is less than 1200-kilowatt hours a month. Both of these are well below the starting point for consumption of the fourth tier at 1501-kilowatt hours a month. I might interject that the Austin water utility, which is giving a cap subsidy, does not give a discount for its fifth tier, over 20,000 gallons. Some people have expressed concern that eliminating the top tiers of usage from cap will put a hardship on large families. This concern is partially allayed with this chart using data from the energy information administration showing that on average in the southern United States, a three-person household uses only slightly less than a household with more than twice as many people. Another problem that you have, and JJ talked about this, is that cap was only set up to serve about 29,000 participants for electric discounts. It's currently serving about 41,000 people.

[1:47:18 PM]

There is only enough funding to maintain the current number of participants until 2018. Now, you can just increase the cap fee when the shortfall runs out. However, this chart shows that Austinites pay more than any other utility in Texas to support bill discounts for the poor. Austinites pay about \$19 -- Austin residential customers pay on average \$19 a year for bill discounts. San Antonio pays only \$3. The state of Texas is terminating its program and spending down the surplus that it has collected. When that surplus is spent that program will be no more. Currently ERCOT customers pay nothing, but in prior years they paid about \$9 a year. Austin residential cap fees could go up another 8 or \$9 if the increase is made in proportion to the current charges for rate classes. 90% of residential customers pay the cap fee, and many of the people paying this cap fee will be the working poor. So what can be done to fix these problems? And I've got six suggestions here. First, change the enrollment to a dual system like ERCOT, which will either income qualify a person or auto enroll them if their name is on the bill. Second, demand income verification for participants with high improvement values. Third, eliminate participants who own more than 1 property, and I have a screen here of \$50,000. What can you buy in Austin for \$50,000?

[1:49:20 PM]

Maybe a vacant lot that's next door. Maybe. So this more or less says that people who own more than one property would not be allowed to participate. Set these screens in motion in 60 to 90 days, you could be losing several hundred thousand \$ a year by allowing this 12-month rotation that Austin energy is doing now. Fifth, eliminate the 10% discount for the top two tiers of consumption. Cap should pay for essential needs and encourage conservation. Luxury. And finally, stop double and triple payments to the same customer. What could you do with this surplus of 2 or \$3 million that is going to the wrong people or spent for the wrong reasons? When you correct the program you could use the saved money to, one, cover the shortfall of funding expected in 2018, or two, you could give higher benefits to lower consumption participants, or three, you could fund direct installation programs for energy efficiency measures. I'm a big fan of that. I appreciate your time and concern. I will be glad to give you, your staff, or the auditor's office any information I have relevant to this issue.

>> Gallo: Don't leave, in case there's questions. Council members, do we have any questions? Council member Zimmerman?

>> Zimmerman: I have

(indiscernible) -- Council member Gallo, I have a question for the dais, because we had talked with Mr. Robbins on several occasions, and I started drafting something for the council message board.

[1:51:22 PM]

As you all know I'm fond of posting on the council board message board. But I want to do ask so I don't waste time again, is there anything interest, or close to majority support for what he mentioned. We've talked about this numerous times about these particular reforms he's suggesting. This is not the first time this has come up. So can we have a discussion on whether we support these ideas for reforms?

>> Gallo: Council member kitchen?

>> Kitchen: I have an informational question first if that's --

>> Gallo: Absolutely.

>> Kitchen: For staff. And I don't know if we have the right staff here to answer the question. Thank you. You may not know the answer to this, but just in case, and I appreciate Mr. Robbins has been bringing this up for a while now for us, and I appreciate that -- his efforts on that part. So the specific instances that Mr. Robbins has identified, have they been researched? Do you know?

>> Only if they've come through the screening process, and again, we've just begun the screening process.

>> Kitchen: Okay.

>> And so if they are in the early batches that we've already sent letters to, then they would have been notified. I have noticed that for those that receive letters, not many opt-out letters -- not many are taking the opportunity to opt out.

>> Kitchen: Okay. But we haven't done an audit of the properties that Mr. Robbins has identified?

>> I've not seen that list of those that Mr. Robbins just provided.

>> Kitchen: Okay.

>> Gallo: Any other comments, questions? So I guess I would ask staff, if you were to look at the list of concerns that Mr. Robbins had, would you be able to do that internally or do you need more definite resolution from the council for that action?

[1:53:26 PM]

>> There are several items on the list, and I just have seen the list for the first time in this prior

presentation. There are several items on the list that I feel will need directive or changes from the dais, specifically to our tariff that says all customers who meet these eligibility criteria are eligible for the program, so we would really have to take a closer look at that tariff. In addition to that, implementing the income verification process would require significant changes in our current process, and so we would need some time to place those resources in action.

>> Gallo: Okay. So what about this as a proposal. What if staff goes back over this next month and works with Mr. Robbins and then does a presentation? We'll post that for our next meeting -- and does a presentation that basically says we can do this already or we -- the council would need to make these other actions to be able to continue. Council member kitchen?

>> Kitchen: Yes, I would support that. Could I add some information to that request?

>> Gallo: Yes.

>> Kitchen: The -- the examples that Mr. Robbins is bringing forward, it's difficult for me to understand how an auto-enrollment process would allow those to come through. And I really think it's important for the staff to look at the specific instances and tell us -- I mean, tell us how those possibly -- because these auto-enrollment programs have asset limitations, and owning multiple properties like that -- I would just like -- I would just like to know how that happened.

>> Gallo: And I think the timing of this is really appropriate because you were mentioning that the vendor that you use for the programming, you were talking about expanding the scope of that.

[1:55:29 PM]

So I think that if the process would require an expanded scope for that vendor, I think this conversation is time appropriate at this point. Council member troxclair?

>> Troxclair: So to either staff or Mr. Robbins, is the -- is the assumption that of the examples that he brought forward, that there is maybe a family member or a friend or someone else living -- who moves into that house, like a grandmother who is enrolled in one of the programs that qualifies, and that's how they get automatically enrolled? Is that the assumption of why -- to council member kitchen's question as to how these properties get on the list, that's the only reasonable explanation I have heard so far.

>> All I have are anecdotal -- when I first did my research in 2014, I knew eight or nine people on that list, and I called them up, and I asked them what was going on. A couple -- three of them didn't even know they were on it. Other -- I mean, one of them was your predecessor, bill Spelman.

>> Troxclair: But do you know how they got on it?

>> Yeah, bill theorized that his in-law was living with him for a while and that she was on one of these programs, and he assumes that that's how he got automatically enrolled. I might add that bill Spelman is to my knowledge the only person on cap that ever paid the city back, because he felt he didn't deserve it, and when he found out he was not -- he didn't want to be on it, he asked for a bill so he could reimburse the city.

>> So I think there's -- I mean, I appreciate the interest in having staff work with Mr. Robbins and come back, but I also appreciate Mr. Robbins -- well, you don't -- you don't come off as frustrated, but I imagine that you are frustrated that you've been bringing this issue up, you know, for a year and a half now, and the reality is it shouldn't be -- we're grateful that you are here to bring these issues forward, but I think the problem is that Austin energy staff is listening and realizing the things that they can do inside the existing policy, but we're at a point now where they're telling us that we have to make a decision as a council about how we feel about the policy -- the policy question of do we think if someone is in that situation and has their -- a family member move in with them that is enrolled in one of these programs, they get automatically enrolled, do we think that we should income qualify them so that we can remove them from the list?

[1:58:14 PM]

Or do we feel like they're entitled to that benefit? I think that's the question the Austin energy staff is telling us we have to answer in order to address Mr. Robbins's concerns.

>> Kitchen: Okay. Does somebody want to respond or -- okay. Greg, and then council member kitchen.

>> Certainly. And so to start, I'm obviously a big supporter of the program and many of my constituents benefit greatly from it and that's appreciated, and part of that is wanting to be sustainable and be sure the cap charge we're charging goes to the people that most need it. And I think that across the dais we certainly -- some of the examples that have been shown by Mr. Robbins, we certainly -- at least I think it's common sense that we don't want some of those folks, if they are who we think they are, to receive the benefit because they're not low-income people. The difficult question, just related, for example, to the person whose name is on the bill, is that we can get examples, and Mr. Rob Irons brings them forward and there are good examples of home who shouldn't be on T but the question is, who if we go through this income qualification process because somebody's name isn't on the bill, is going to be removed who does need it and be able to weigh those pros and cons. If we could just remove the millionaires and not have any unintended consequences of removing people who do need it, then the answer would be very clear. And so I think that's why additional information is necessary so that we know who might get removed and may never get on it that needs it. My understanding of why we income qualify -- or why we auto enroll people based on social services is because it's a stand-in for income qualification so that we don't have to staff income qualification. We can just -- it's a stand-in for that. The issue is that benefits aren't always given according to all low-income people. There are many low-income people in this community that don't get any of these benefits because of decisions our state or federal government makes based on having a criminal record or based on being an immigrant, and that's not even undocumented folks.

[2:00:17 PM]

Even green card immigrants can not qualify for many of these benefits. And so oftentimes -- I can imagine -- I don't know what the balance is, and what how many people could get taken off a decision when we're trying to take somebody off the list that we agree doesn't. So for example the children of an immigrant family may qualify for chip and therefore they get enrolled. The parents' name may never be enrolled because they aren't allowed access to many of those other benefits. And so if we uneven role those people automatically and ask them to income qualify, how many people do we unintentionally hurt. We're all going to the same goal and what they need is the information to know what the anticipated policy decisions might be. I will note and say that, you know, looking at the data and doing some research late at night myself, some of those higher end usage, perhaps disincentivizing that is somewhere where there seems to be for me a little more clarity. But on the -- certainly on the names matching the bill we know we are starting to see the names in some of the photographs of people getting the benefit but not quite as much about who may unintentionally remove. So I'm very dedicated to it, but I don't think the choice is as simple of a policy decision of do we want millionaires getting cap benefits. The question is how do we that in the best way possible.

>> Gallo: Councilmember kitchen. The mayor. We'll do those two and get to the other end.

>> Kitchen: I was just going to say that I -- I agree with what the councilmember just laid out.

[2:02:17 PM]

And so what I'm looking for is -- is direct connection as possible between what the problem we're trying to fix and the impact of that. Same thing that councilmember Casar is saying. So in getting additional

information back, if that's the route we go, I would -- I would like to know for each one of these programs which ones of them look at assets of -- look at assets as part of the determination. And you don't have to do this. There's plenty of experts and I can talk to our chair about those, plenty of experts on all of these programs and how they are income qualified. But I can't remember myself which ones look at assets and which ones don't because some do and some don't. So I'm intrigued by Mr. Robbins' suggestion that one of the ways to address this is to provide a filter that's based on ownership of additional properties. Which to me might be one of the ways that is perhaps the fairest way to add an additional filter. So but I would want to know which ones of these programs have that asset requirement and which ones of them don't.

>> Gallo: Mayor?

>> Mayor Adler: I -- again, too, we have six proposals. I would be interested in our professional staff coming back with respect to all six of them and saying this is our recommendation with respect to these policy suggestions that were made.

>> Gallo: So councilmember Troxclair, mayor pro tem Tovo and councilmember Zimmerman I believe has a resolution he would like us to address.

>> Troxclair: So I guess my followup question is does Austin energy have the ability or the authority that you need to even gather this information for us.

>> We do, yes. We can gather the information as best we can from data sets that we own.

[2:04:20 PM]

There may be things like income of current cap customers, we do not have that information. We can definitely work with our peers and our professionals who administer the benefit programs and identify what is the criteria to receive those benefits and bring that back at our next meeting.

>> Troxclair: So is -- is being able to ask about income or assets an important part of the data that we would need in order to make a judgment call of what the benefit or drawback is of implementing a program that would take into account income or assets?

>> Income verification is a very difficult process. So we would definitely work with our peers and others - other utilities who perform that process to determine how they do it. But simply asking the question we may get a response, we may not get a response, we may get an inaccurate response. So I would perceive down the path of -- proceed down the path of looking at best practice and determining what it would take to do or to even ascertain the income of the current customers.

>> Could I respond briefly? Respectfully, there -- Austin energy's own contractor is set up to do income verification because they do it for the ERCOT program, they do it for Light Up Texas.

>> We would have to amend the contract.

>> Troxclair: I just am trying to understand if you can give us the information that's responsive to councilmember Casar's question. Because it seems like his question -- it seems like understanding the income of the people who would potentially be affected by a change is necessary for us to know the benefits or drawbacks.

[2:06:29 PM]

Is that true or not true?

>> I would think that we could -- we could look at several kinds of buckets, right? We could look at homeownership, multiple property ownership. Those data points we have access to. And so for the things that we can ascertain, we would bring those back. Income is the very thing that we don't have and the thing that prevents us from even qualifying our customers for the program. So that -- that is the data set that we would not be able to bring back at the next meeting.

>> Gallo: Okay. Mayor pro tem tovo.

>> Tovo: I'm just trying to figure out exactly what we're doing here because I thought that when Mr. Robbins a year ago raised these concerns in the media, I thought we had asked our Austin energy staff to identify some changes they thought would be meaningful ones and implement them. And what I hear from the presentation that we started with is that they have only now implemented those changes. And so I feel that we did ask our Austin energy staff to identify what they thought would be useful and they've now just done it. And so I wonder if we ought not to see what impact that has.

>> Gallo: My impression of the impression of what Mr. Robbins did is that the staff has responded to the previous request and come up with a system that has been able to capture over 3600 people that should not have been on the program. But it sounds like from what Mr. Robbins has presented is there are other opportunities that we can perhaps capture an additional amount that then we will be able to fund this program better and longer. So I think the answer to your question is probably yes, they did, and the benefit seems like it's over \$200,000 worth of savings that we can use in other ways to help other people and the wait list was the direct result of that, being able to deal with the wait list.

[2:08:46 PM]

But it does sound there are additional activities.

>> I think one response to that and I'm sorry, one response is we have only begun this month implementing -- I'm sorry, in December implementing the tcad home improvement value. So I would think that as we go through the next several months implementing that screening criteria, we might find that the hopes that Mr. Robbins shared with us would fall out of that process. And again, if we allow the process to continue, we would find that those homes would no longer be part of the program.

>> Gallo: Seems that can be part of the conversation that comes back next month, which there may be some of these things that the process begins will deal with some of his concerns, but there may be some other issues you feel like you need help from council on. Councilmember Zimmerman.

>> Zimmerman: I would like to put something on the overhead and draw your attention to a resolution that was Mr. Robbins, this is an idea you brought to us about the 2500, the top tier, I think it was tier 5. This is a result of the conversation we had after you had given us testimony.

>> I think it's a great movement in the right direction.

>> Zimmerman: And it narrows in just on the tier 5. So I'm just going to do the be it resolve. City council directs city manager to remove the caps program for tier 5 rates, but the cap discounts would still apply to tier 1 through 4 even for customers using more than 2500-kilowatt hours.

>> Gallo: Councilmember Zimmerman, I apologize, this was only posted for briefing so I need to ask legal if we can take action.

[2:10:46 PM]

>> Zimmerman: We can't take action on a resolution.

>> This was posted as only a briefing so you wouldn't be able to take action even if that was only to recommend it to full council as a briefing only.

>> Zimmerman: No problem.

>> Mayor Adler: I would like to see, staff not here necessarily, but I would like to have staff's policy recommendation with respect to each of these suggestions.

>> Gallo: So we will make sure that that is on the agenda for next month. Does that give you enough time to work with Mr. Robbins and staff and evaluate and come back to us? Okay.

>> We'll definitely have some preliminary information and enough information I think to start a discussion on -- on any changes that we would recommend to the current program. So I think that's 30

days is sufficient.

>> I will try and make an appointment with Ms. Gutierrez as soon as this agenda item is over.

>> Gallo: Okay. Thank you. Any other -- councilmember kitchen.

>> Kitchen: I apologize if you have already sent it to us but I think it would be helpful to have a copy of your presentation.

>> Done.

>> Gallo: Councilmember Houston, even though she's right next door to me she has to hit me on the hit to recognize her.

>> Houston: You said you were going to look into the home improvement values over \$250,000. Will you also be able to search for multiple properties?

>> We will definitely try. That -- we actually tried to implement that as a part of the changes that I just described to you and it was a little more difficult than one would think. And so we'll look at it again and see if that's a possibility and bring back to you if there is any barriers to doing that.

>> Houston: Thank you. I would appreciate it.

>> Gallo: Any other questions? Mayor pro tem tovo.

>> Tovo: I would also ask that our staff also talk with some of the individuals who you are in exact with through the various task forces that deal with our low-income consumers because I know the idea of expanding and using auto enrollment actually came out of some community members who work with social service agencies.

[2:12:58 PM]

So as you are evaluating the different policy positions, I hope it will include some of those important voices as well.

>> We will do that.

>> Tovo: Thank you.

>> Gallo: Are there any other questions? Councilmembers? Do I hear a motion to adjourn.

>> Houston: So moved.

>> Gallo: Councilmember Houston. A second? Councilmember Garza. All in favor? Any opposed? Unanimous on the dais.